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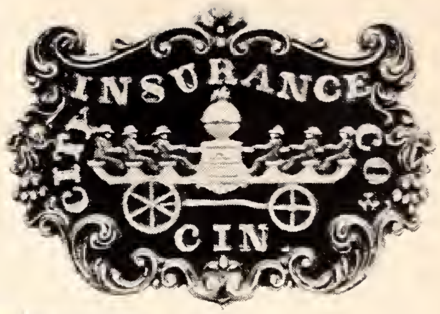

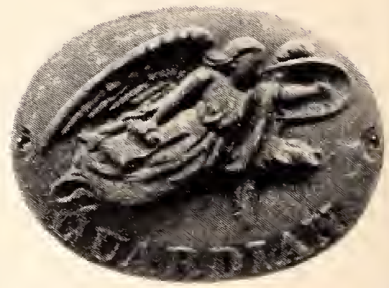

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INSURANCE WORLD 1957 PROPERTY AND LIABILITY

Yale Daily News

INSURANCE WORLD 1957

The editors wish to express their profound appreciation to the many leaders in the insurance industry whose generous support and encouragement have made this volume possible. Special thanks are due Mr. William Rees, Partner of Chubb & Son, and Dr. Laurence J. Ackerman, Dean of the University of Connecticut School of Business Administration, whose efforts on behalf of the magazine were unflagging. Henry G. Von Maur, business manager of the *Yale Daily News*, is deserving of utmost praise for his inestimable aid in the organization of the magazine. The Editors owe a special debt to Miss Ann Chernon, Miss Helen Gorman, and Mrs. Francis Donahue, devoted servants of the *News*, who have rendered valuable assistance to them throughout the preparation of the magazine. The editors also owe their sincerest gratitude to the firm of Chubb & Son who generously provided an office for the staff in New York, and also to the National of Hartford Group for the use of space there. Finally, the editors wish to express their appreciation for the work performed on sales of copies, mailing, circulation, and publicity for the publication by Junius R. Clark III, Thomas A. Williams, Peter S. Hockaday, James C. Miller, and Edward U. Notz, all Yale undergraduates.

design by Norman Ives

PREFACE

BELIEVING THAT IT IS NECESSARY *to inform the undergraduate of the career opportunities available to him, the editors are proud to present this study of the insurance industry.*

One thought has been central in its preparation. The editors believe that the college audience is a highly sensitive and intelligent group of people who easily separate the factual from the exaggerated. Their idea has been to reveal in some detail the workings of insurance and its vast complex of career opportunities, avoiding the generalities to which the layman is all too often exposed. Thus, if the reader lacks the comforting feeling that what he is reading is familiar, the editors will have succeeded in their purpose.

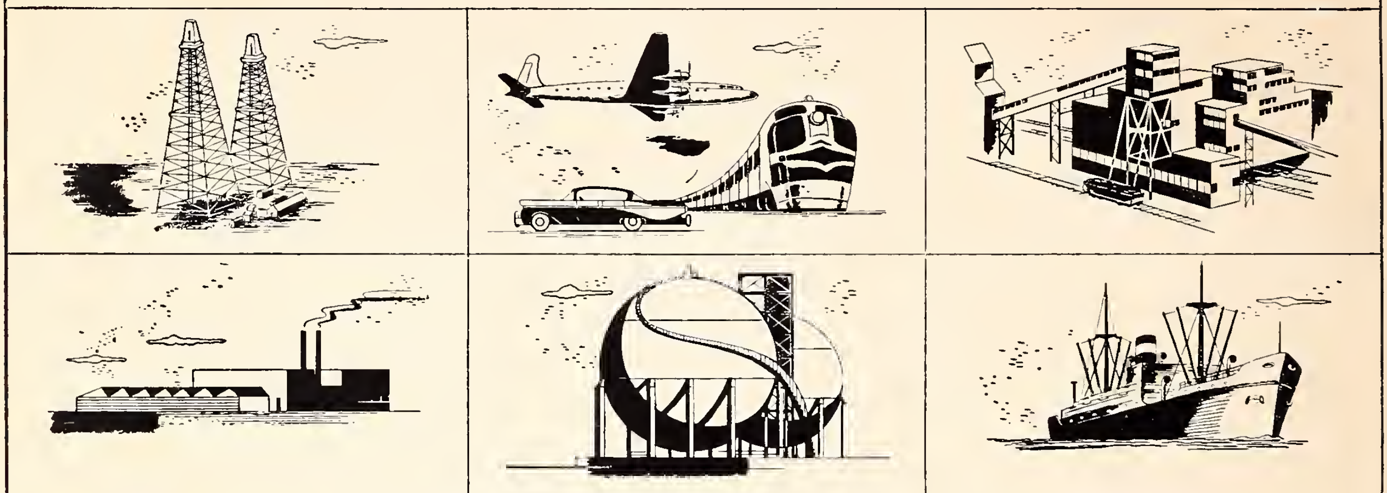
The areas of life, accident, and sickness, and property and liability insurance have been separated because, although related in some of their functions, each represents an industry complete in itself and operating from a different point of view. They are similar, however, in their present need for numbers of well trained college men.

Two ideas have afforded great satisfaction to the editors in the preparation of these volumes. Primary is the knowledge that virtually no student can already have made a choice of a career that will preclude him from reading the publication with vital interest, or from taking up suggestions in the magazine that he enter the field of insurance. Doctors, lawyers, and at least one Indian chief all have a place in the insurance world.

The second idea is that these pages have more to offer than just a mere discussion of what to do after college: they are exceptionally perceptive accounts of a central part of the nation's economy by those people who are best qualified to write on their respective subjects. He who owns an insurance policy, or has the slightest interest in the workings of the American economy should read these volumes with considerable benefit.

The field of insurance has long been surrounded by a cloud of misconceptions. The prospect of a career that entails a life time of door-to-door selling is enough to repel the least ambitious student, and rightly so. It has been the editors' purpose here to present a truer side of this vibrant and expanding industry. A cursory glance at the articles in this publication should be sufficient to dispel any notion of insurance as a mundane industry. Engineering, electronics, law, medicine, finance, nuclear energy, advertising, sales, and management are all bound up in the fabric of insurance, which is truly a cloth woven out of all major lines of endeavor.

It is with understandable pride, therefore, that the editors present this symposium. The authors, representing many of the important insurance companies in this country, as well as government and education, have exposed through their articles the most relevant aspects of an industry that is integrally related to the entire American economic system, and indeed may be called the sine qua non *of that system.*



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FOREWORD

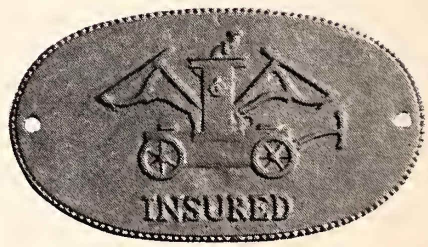
Students about to be graduated from college apply numerous criteria to the job offers they receive. Although various research studies have assigned different weights to these factors, one which is high on all lists is the opportunity for advancement afforded by the position. Today's graduate wants a challenging career and one which will give him personal satisfaction for a job well done. Under these circumstances it is clear why an increasing number of graduates are turning to the field of insurance.

Progress and opportunity are the keynotes of the insurance business today. New competitive forces are appearing as the insuring public becomes increasingly aware of the need for protection against the risks of life and property. Through articles in the popular press, advertisements of insurance companies, studies in classrooms, the work of agents, and the expansion of various governmental insurance plans, insurance buyers are gaining a greater understanding of the nature of this service. Price differentials are being noted. The terms of the contract are questioned as buyers seek forms they can understand. The skill of the agent in establishing an insurance program appropriate to the need of the buyer is evaluated. Rigid standards of performance are created in the claimant's mind relative to the way in which he feels his loss should be handled. Although this trend toward informed insurance buying is in its infancy, the signs are clear that the nature of the insurance market is changing. Only those companies whose management recognizes these conditions can entertain hopes for long-run success.

The response of insurers to changing market conditions has brought a new spirit of dynamics into the business. Long-established ways of doing business are being challenged by an increasing number of firms. Channels of distribution are being examined in a search for more efficient means of bringing insurance to the public at a lower cost. The possibilities of electronic equipment for the handling of the vast amount of paper work inherent in the insurance transaction are being appraised. Contracts are being simplified in terminology and form, while the protection given the insured is being broadened. New outlets for funds held by insurers are subject to constant scrutiny. Mergers and consolidations are being effected in an effort to discover why people buy insurance and what their attitudes toward the institution are. As insurers seek to increase their share of the market, great opportunities are opened to young people, especially those with a collegiate background in both liberal and technical subjects who have been taught to think analytically.

This publication of the Yale Daily News *is ample testimony of the change taking place in the insurance business. No purpose would have been served by compiling the articles of such a distinguished group of insurance leaders had the editors not recognized the dynamic qualities of this business as it is operating in today's economy. Those in and out of the college who read these articles will gain a new insight into the opportunities, responsibilities, and challenges in a business which is rapidly becoming one of the dominant forms of business enterprise on the American scene.*

JOHN S. BICKLEY, *Ohio State University, Columbus, Ohio*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PART I A BROAD VIEW OF THE INDUSTRY

THE OPPORTUNITY

FOR COLLEGE MEN

BY PERCY CHUBB 2ND

Partner of Chubb & Son, Underwriters. Mr. Chubb is a member of the Insurance Study Group of the Atomic Energy Commission. Holder of a PhB degree from Yale, he is also a director of the First National City Bank of New York.

In any business, broad opportunities for a career depend on certain fundamental ingredients—the challenge it offers to new and creative ideas, its importance in the national economy, and the attitude of its present managers towards new blood and new brains. On all of these counts, the insurance business today stacks up well.

Perhaps the outstanding characteristic of today's insurance industry is that it is dynamic, and full of change. A quarter of a century ago, a career in insurance conjured up, perhaps unfairly, the picture of a door-bell ringer, a man trying to sell a standard and inflexible product through techniques of salesmanship or the goodwill of his friends. Today the key to the business is an intelligent and imaginative attempt to meet the ever changing needs of a rapidly evolving economy, on a basis which will provide security to the buyer and sound financial incentives to the seller. It is a calling which at some levels involves hour by hour negotiations with human beings confronted with problems, at other levels requires sound technical knowledge as a basis for decisions involving substantial profit or loss, and at all levels calls for character, integrity, brains, and industry as the passports to success.

From the viewpoint of the college graduate seeking to determine the most promising field for his life work, one of the appeals of the insurance business lies in the catholicity of the skills which it requires. Basically, insurance is a shock absorber, spreading the impact of a concentrated disaster over many people or over an extended period of time. By its very nature, it plays a part in almost every aspect of modern life, and no single standardized set of specifications can be developed for a successful insurance man.

It offers a field for the man with engineering training in the areas both of loss prevention and of risk appraisal. It challenges the analytical mind by its demands that we must imagine what may happen in the future, not only on the basis of what has happened in the past, but also in the light of the ever changing world environment. For the man who wishes to specialize, there are fields as widely scattered as the development of electronic automation on the one hand and investigation of crime on the other. The methodical man can find his niche assembling data from widely divergent areas and seeking out the common denominator. For one who is attracted by foreign service, the new expansion of American insurance overseas presents a virgin and fertile field. The legal mind, as in so many fields of endeavor, has almost endless opportunities, not only of adjudicating but of foreseeing and avoiding controversy. The mathematical mind is confronted with the law of probabilities, not in a dry and sterile form but in one which is complicated in all of its implications by the vagaries of human frailties and human nature. And above all, the rounded man, whose pleasure in life lies in dealing with human beings, finds that his constant study and concern lies in working with people who have pressing and immediate problems.

Viewed against the backdrop of the national economy, insurance is an industry with a gross annual income in excess of $10,000,000,000, with no single competitive unit in the business controlling more than 6% of the whole. Moreover, as the hazards involved in modern living increase in proportion with the industrial power available to each individual, it becomes increasingly true that no major form of activity can exist without insurance. One of the stimulating elements in the business is accordingly the variety of activities with which one is brought into contact.

Just examine the oldest of the subdivisions of the business. Marine insurance brings a man into contact with the ebb and flow of world commerce and entails an intimate if vicarious acquaintance with outlying parts of the world. A marine insurance underwriter is constantly in touch with shipments of chrome ore from West Africa, coffee from Brazil, rubber from Indonesia, and copra from the scattered islands of the Pacific. He learns the physical characteristics of each of these commodities, how they are packaged for shipment, and the customs of the trade which is engaged in their importation. He must also keep track of rapidly evolving types of cargo carrying vessels throughout the world, their susceptibility to damage and their capabilities for dealing with infinite variety of cargoes. Though he may sit at a desk in New York or San Francisco, his mind not only can but must range the seven seas.

In the field of fire insurance, the ever developing area of industrial process presents a challenge which can only be met with study and accumulated technical knowledge. A fire underwriter must elarn and remember the special hazards involved in chemical manufacturing, the processing of raw materials, and the still unmapped areas of atomic energy.

An underwriter specializing in foreign insurance must know not only the physical nature but the laws and customs of a score or more countries overseas.

A claims executive must not only be

expert in the customs of widely varying trades and the provisions of insurance law and contracts; he must also have the human ability to understand the claimant's point of view and to dispense not only dollars but satisfaction.

Finally, as the goal and reward of success, the top management insurance executive must coordinate and guide all of the varied and specialized functions, the performance of what is essentially a public service.

All of these requirements present a challenge and an opportunity to the college graduate with an alert mind and an active imagination, be his background the broad field of liberal arts or one of the more specialized academic disciplines.

Neither the expanding area of insurance activity nor its increasing part in the national economy would suffice to make the business an appealing career, if the attitude of management was not receptive to new blood and new ideas. Fortunately, the business as a whole is alive to the need of attracting men of the highest caliber and of maintaining an environment in which they can work creatively. For example, at the recent annual meeting of the American Insurance Association, which is the overall body for industry policy discussions, almost one third of the meeting was devoted to a discussion of this problem. Moreover, in recent years many leading companies have developed on the job training plans for college graduates, and have established salary scales for trainees which meet with the present day needs of a young man establishing himself in a career.

In considering a career of insurance, however, it is of course important to look at the other side of the coin, and to appraise the price to be paid for the opportunities inherent in the business.

The first requirement is hard work, with a fair percentage of drudgery. The mere accumulation of the necessary breadth of knowledge is a painstaking process extending over the years, and at least in the early stages a fair proportion of repetitive work is involved. This condition leads in the majority of cases to ordered rather than spectacular progress, and the long term stability and security inherent in an insurance career is earned by the exercise of dogged perseverance during periods of development. A successful insurance man spends all of his life learning, and this process makes demands as well as paying rewards. A further price lies in the occasional frustrations which are inevitable in any business which is subject to areas of government control. At times too much of one's energies are devoted to reconciling the emergent needs of a changing economy with concepts of regulation having their roots in the past. It is true, however, that no business is free of its frustrations and that the insurance business probably has no more than its fair share. Moreover, slow though the process may be, the record of the past gives us confidence that in the future the business, together with the regulatory framework within which it operates, will be able to cope successfully with the needs of the situation.

Above all, these considerations seem small when viewed in the light of the satisfactions which are offered by a career in the business of insurance. These satisfactions are not limited to the economic ones of financial security and opportunity for advancement. Perhaps even greater are the rewards which arise from dealing day after day, constructively, with people and their problems; from feeling that one is making an essential contribution to American economy; and above all, from the feeling that one is playing an active and constructive part in the main stream of life in the twentieth century.

* * *

PROPERTY INSURANCE

AND INDIVIDUAL SECURITY

BY LAURENCE J. ACKERMAN

Dean of the University of Connecticut School of Business Administration. Educated at Lehigh, Columbia and Pennsylvania, Dean Ackerman has taught insurance in a number of colleges across the country and is the author of a book entitled Risks We Face.

Property insurance is a vital part of the fabric of our industrial and social culture. Its indispensible character springs from the pervasive element of economic uncertainty which confronts individuals and institutions. No one can escape constant exposure to a variety of perils. Each day we face the contingency that the unexpected may disturb the normal routine of our lives; a windstorm may damage our homes; our automobile may be stolen; an accident may hospitalize us; fire may destroy our books, our clothing.

Perils are of two types. There are those perils over which we in our individual capacity have little control. A war, a drought, a hurricane are illustrations of this type of peril. Then there are those perils over which we have a fairly large measure of control. For example, the threat of fire is one which is always with us. But through the observation of fire prevention and fire protection rules, we can do much to reduce and control the danger.

COMBATTING PERILS

What can the individual do about these perils? He has a number of alternatives. He could elect to do nothing. This might prove to be a costly gamble. In a sense it is evading the problem, not solving it. He might decide to create a savings fund which could absorb the shock of a financial loss from the occurrence of one of these perils, e.g., a fire or a windstorm. This method would be feasible if we had a guarantee of no immediate loss.

But there are no such guarantees in life. Furthermore, the individual through this method ties up savings which might be put to more productive uses. Finally, he might adopt the expedient of risk analysis and insurance protection.

The latter method as a medium for meeting the perils to a person's property operates in this manner. The individual could survey the risks to which he is exposed. In this survey he could array his possible losses in the order of their potential magnitude and severity. Having surveyed this risk potential, he could proceed to eliminate or reduce any perils to which he is exposed. For example, if the property owner has flammable materials in his home, he might put them in special containers to reduce the fire hazard. Finally we have the irreducible minimum of risk over which he has no control. For this area of risk, the individual can transfer the chance of loss to a professional risk bearer—an insurance company, through the purchase of an insurance policy.

CONTRIBUTIONS TO SECURITY

What contributions does property insurance make to individual security? The property insurance business recognized early in its life that to succeed it must furnish insurance protection at a reasonable cost. This could be done only if it pursued an active career of peril minimization and elimination. Thus the fire insurance business, through such organizations as the National Board of Fire Underwriters and the Underwriters Laboratory, has encouraged sound building laws for local communities, improvements in building construction and in product safety, elimination of arson. In the accident field, we have had valuable contributions to accident prevention in the automobile field and in industry. The most dramatic example of prevention is in the steam boiler insurance field. In this area inspection by the trained specialists of the insurance companies is as important to the insured as the element of protection against loss. Thus the property insurance business has been an active catalyst in making the world a safer place for the individual and his property.

Probably there is no greater quest that the individual has than the search for security. The possession of a home, an auto, a successful business are elements in creating a sense of security in the individual. But this drive for security is threatened by the frustration that a fire, an accident, a robbery might produce. Through insurance much of this uncertainty which threatens this quest for security can be eliminated.

CORNERSTONE OF CREDIT

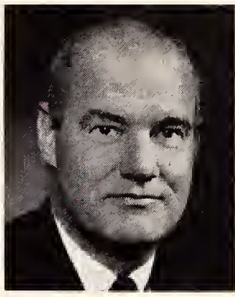
Property insurance is often called the cornerstone of our credit structure. In the individual realm this can be simply illustrated. The young couple realizing their dream for a home approach a financial institution for a loan. The lender always demands fire insurance on the dwelling to protect the amount of the loan. If property insurance were not available, lenders might be reluctant to make the loan in the first place. If they did make the loan, they would have to increase the interest charge to cover the hazards of loss of the primary security for the loan—the building itself.

In the very broad sense, through a carefully conceived insurance program, individuals can obtain greater peace of mind increasing through this their efficiency and thus make a greater contribution to society.

SIGNIFICANCE

TO THE ECONOMY

BY J. VICTOR HERD



President of the America Fore Insurance Group. After over 22 years in the business, Mr. Herd joined America Fore in 1942 as secretary of the fire companies. By 1944, he had become vice president of all the companies, and this year was elected president of the group.

(Excerpts from the Presidential Address at the 90th Annual Meeting of the National Board of Fire Underwriters.)

JUST AS any well-managed manufacturing or mercantile enterprise must take inventory periodically to determine its condition, so too should a comprehensive service business such as ours pause long enough at intervals to take inventory of its current conditions and trends. Thus, better informed judgment may be brought to bear upon decisions regarding future courses of action, all designed to enable us the better to serve the public interest.

It is appropriate to note here that this meeting marks the 90th anniversary of the founding of the National Board of Fire Underwriters, a distinction which in itself attests to the fact that the capital stock fire insurance business has cooperated successfully within its structure for the advancement of the welfare of the nation. I say that because our business has properly insisted on maintaining the quality of the product and service which it sells. We have also maintained at a high standard the public service we render in the constant campaign to protect life and property from fire and the ravages of natural phenomena.

Another evidence of the long-term character and basic soundness of these traditions is the number of companies, members of the National Board of Fire Underwriters, that have been in business for more than 100 years. As of the present time, there are 56 such companies, members of this organization, which have attained the distinction of a century of service in this business.

At this point I would like to recount the varied activities of the National Board of Fire Underwriters which are of a public service nature: engineering, actuarial, cooperating with authorities in the suppression of arson and of crimes involving hijacking and thefts of furs or jewelry, and public education in safety to life and property.

In taking inventory of the stock in trade of any service enterprise, intangibles assume an important asset value. Among some such assets of the business of property insurance we would enumerate the following:

a) *Peace of Mind.* Probably the most important stock on our shelves, in fact, the most important product of all insurance companies, is the peace of mind which we merchandise through the medium of our insurance policies.

b) *Loss Prevention and Conservation.* The most important loss is the one that never happens. This philosophy is the basis of the many-faceted loss prevention and conservation program of capital stock property insurance companies individually and jointly through the National Board of Fire Underwriters and other organizations. The conservation of our human and natural resources is vastly more important than paying for losses after they occur. We cannot escape the fact that human lives and property destroyed are gone forever and their productivity can never be restored by insurance or otherwise. It is for this reason that the loss prevention responsibility, which has voluntarily been assumed by the capital stock property insurance business, has an intangible asset value of an importance second only to the "promise to pay" when loss occurs.

c) *Alleviation of Distress.* Very important among our assets is the actual performance under our policies if and when disaster occurs. We then alleviate distress—insurance money rebuilds damaged or destroyed homes and businesses and helps restore lost jobs.

d) *Local Representation by Producers.* Next, but also very important among our assets, is the system of local representation through agents and brokers which, if used efficiently, need not yield its prominent place in the American economic fabric to any other system of distribution for insurance. Later I shall elaborate upon this asset and its value.

e) *Bearing and Sharing Costs of Government.* We bear a large share of the fiscal burden of government, not only as taxpayers, but also as investors in governmental obligations. These assume many forms. Among them are: certificates of indebtedness; federal, state, municipal, housing and school district bonds; tax anticipation notes; and revenue bonds, such as those issued to finance the construction and maintainance of bridges, tunnels, roads and other public works.

f) *Furnishing Risk Capital.* By using our financial resources to purchase and hold equity shares, we furnish risk capital to a multitude of industrial, mercantile and service enterprises.

While most of us have become accustomed to reading almost daily about billions of dollars appropriated for governmental projects, and even for private business expansion, many informed persons do not entirely appreciate the important dollar role played in our economy by the business of insurance.

For example, during the year 1955 the property insurance companies of all kinds, stock, mutual and reciprocal, received from the public insurance premiums totalling 4.3 billions of dollars. Including the premiums paid for casualty coverages a total of

more than 10.4 billion dollars was paid during 1955 for property and casualty coverages.

The foregoing premium figures give some idea of the reliance placed by the American public in the great institutions of property and casualty insurances.

Impressive as those totals are, they are only one measure of the service rendered year in and year out to the American people by the great institution of insurance. Another significant and tangible measure of universal usefulness is in the large amounts paid out by insurance companies during the year to indemnify purchasers of all kinds of insurance—to help them to restore or replace property that is damaged or destroyed, to assist them through sickness, to keep families together after death or disability strikes a household—to mention only a few of the innumerable services that are performed by insurance. In 1954, the latest year for which the figures are available, approximately 12 billion dollars was paid out by insurance companies in settlement of claims or in benefits.

Confining ourselves for a moment to figures more closely related to our operations, there is no better example of our performance in meeting the problems incident to catastrophic occurrences, both weatherwise and man-made, involving widespread damage and destruction and affecting millions of people every year, than the payments made under the extended coverage endorsement. The extended coverage endorsement has provided peace of mind and, in times of distress, an economic bulwark to policyholders since its general acceptance by the public almost twenty-five years ago.

Catastrophic windstorms, including tornadoes and hurricanes, hail storms and explosions affecting wide areas, have demonstrated time and again the prudence and economic value of the extended coverage. There have been as many as 1,500,000 losses arising from one occurrence—the great northeast storm of 1950—yet each week there are thousands of individual claims being paid under extended coverage in a routine manner throughout the United States, few of which ever reach the headlines.

The mere possession of an insurance policy provides the peace of mind so essential to public confidence. Such confidence when combined with the performance under such policies as evidenced by the constant ebb and flow of insurance dollars forms the cornerstone for American faith and credit, two intangibles which are so indispensable to our dynamic economy.

The rewards our business receives for its wares are small indeed! The margin of underwriting profit, when any, in the property insurance business is narrow. In support of that statement I would refer to the statutory underwriting profit of all the capital stock property insurance companies. For the year 1955 the underwriting profit was 2.5 percent of premiums earned as contrasted with a profit of five percent the year before. For the five year period ended December 31, 1955, the reported underwriting profit to premiums earned was 4.1 percent, a reduction of six-tenths of one percent from the five year period ended December 31, 1954.

Seldom do we manage in any year to realize a reasonable margin for underwriting profit despite the fact that practically every applicable rate regulatory statute provides specifically that the prices at which we market our products shall be adequate reward, in the form of an underwriting profit, for our services is a matter the remedy for which rests almost entirely within our control.

For most regulated businesses the pricing structure is laid down with slide rule precision. Some such businesses enjoy a semblance of monopoly by authority mainly because it is in the public interest to avoid wasteful and extravagant duplication of facilities. Utilities such as telephone and power companies are prime examples. It is refreshing to see how promptly some regulated businesses move in, through channels, to obtain increased revenues just so soon as the rate of net return falls below the prescribed margin—they do not wait for red ink to engulf them before they avail themselves of remedies, administrative and, if needs be, statutory.

A substantial majority of the property insurance business in the United States is written by capital stock insurance companies through their independent local agents and brokers. One of the most priceless assets we have as agency stock companies is the American Agency System. The business of insurance probably owes its present prominent and universally useful position in the American economy largely to the "grass roots" know-how and availability of the American producer—being at the right place at the right time with the goods—our policies and the services he renders thereunder. And also, I might say, being right there, too, when and where misfortune or disaster strikes.

The company-agency relationship that is at the foundation of this business and of service in every community involves a loyalty that is not easily earned or quickly abandoned. Current public utterances to the effect that the

agency system is antiquated and outmoded are strangely reminiscent of past history of more than thirty years ago. An important company fell under the control of a merchant who set about to reform its merchandising methods. The company survived the operation. It was only after an abrupt restoration of experienced insurance management that much of the ground lost during the experiment was regained.

We have recently witnessed a number of developments indicating the entrance of government into the field of insurance. First of all, it should be made clear to all concerned that, regardless of the terms generally used in describing these developments, the insurance business has throughout its history demonstrated a readiness, an eagerness, and a capability of furnishing protection in the form of indemnity for all hazards which are insurable. Sometimes the move is allegedly into the field of insurance even when it deals with those functions of government involving relief and rehabilitation in time of extreme emergency.

At the same time, and in order to maintain its high standard of service and the stability which is so essential to this type of business, it is imperative that the business of insurance identify and reject such perils or coverages as are considered uninsurable. Thus we enable ourselves better to fulfill our due obligations when they arise.

With specific reference to the question of whether insurance against flood damage would be a feasible undertaking, our business decided, after careful consideration based upon the best available technical information and advice, that no practicable plan for writing insurance against flood or flood damage could be evolved on a sound and equitable actuarial basis. These conclusions, following studies of the disastrous New England and Pacific Coast floods of last year, paralleled the conclusions reached after a careful study of the disastrous Kansas and Missouri floods of 1951.

Our views in this respect are a matter of record with congressional committees at Washington. Four spokesmen at Washington urged that no label of insurance be attached to any federal or state program designed to provide indemnity against flood damage, but that any such program was relief and rehabilitation, regardless of label. We further urged that a system of flood control under competent engineering advice was the only basic long term solution to the problem.

When faced with hazards, such as flood, that are not insurable, the private insurers would be remiss in exposing funds carefully husbanded over many years by attempting to provide coverage, no matter how great the need might be for such protection in certain areas—geographically, economically or politically. It would also be misleading to give the impression that the problem merely presents a challenge to insurers and that further study might make the flood peril insurable as such.

In the business of insurance we have retained a "grass roots" character. No insurance company or group, fire, casualty or life, has managed to garner as much as 5 per cent of the total market. Small local companies, efficiently managed and true to fundamentals, will always have a place in our economic picture. Our weakness is also our strength, a situation not unlike the great American system of government. In fact, when examining the business of insurance closely, one cannot help but be impressed by a striking similarity to our system of government—it is truly the quintessence of democracy or, if you prefer, republicanism, in action.

* * *

THE HISTORY

OF PROPERTY INSURANCE

BY ARTHUR C. GOERLICH

Dean of the School of Insurance. Dean Goerlich was a partner of the agency and brokerage, Goerlich and Goerlich for 15 years, and is now a governor and fellow of the Insurance Institute of America. A graduate of Columbia, he is the editor of the Prentice-Hall insurance series. The School of Insurance is an educational institution supported by funds contributed by insurance companies.

To THOSE who have given thought to the matter, it is evident that a commercial civilization cannot exist without some form of insurance; hence, it is not surprising to find that the first great commercial civilization we know of discovered the need. This, of course, was not insurance as we know it today, but ancient commercial codes do have provisions which embody certain insurance principles. START

It is claimed that the first rudimentary idea of insurance had its beginning about 4000 to 3000 BC in Babylonia. It is thought that the Phoenicians learned from the Babylonians and improved upon their basic concepts in building their great commercial civilization culminating in Rhodes and Carthage. By the tenth century BC, the Rhodians had formulated and laid down some of the fundamental marine insurance concepts such as general average.

With considerable justification it is conjectured that the ancient Greeks received their instruction from the Phoenicians. We know that in the fourth century BC Demosthenes was able to quote in one of his speeches a maritime contract which was practically identical with those in use in France and England at the beginning of the 19th century. This form of contract is known as a bottomry (hull) or a respondentia (cargo) bond. The ship owner or merchant borrowed an amount equal to the value of the hull or cargo. If the ship arrived safely, the lender was repaid with interest at a very high rate (sometimes 100%), a large part of which must be considered insurance premium. If the ship was lost, the borrower retained the borrowed amount, the agreed upon value of the hull or cargo. ~~William Winter,~~ ~~in his~~ text, *Marine Insurance*, says:

> A development of interest to the student of marine insurance was an exchange which the Greeks established at Athens for the placing of bottomry bonds. Bankers and merchants operated swift dispatch boats which brought early news of wars and rumors of wars and of the state of the market, so that vessels could be diverted to safe ports and to favorable markets. The whole scheme seems to have been a forerunner of the modern Lloyd's, London.

Rome at its height not only has basic concepts of marine insurance, but developed life insurance to the extent that the mortality tables of an ancient Roman jurist were unsurpassed until the 17th century. While we may speculate regarding other forms, there does not appear to be any certain evidence of insurance other than marine or transportation and life up to the time of the fall of Rome.

For some centuries following the fall of Rome it is difficult to find evidence of insurance practice. Then, slowly, trade began to revive and with it the need for insurance. The cities of the Baltic and the Mediterranean became commercial trade centers. The Hanseatic League decreed certain regulations with respect to bottomry bonds and the "Laws of Wisby" (named after the city once the head of the league) refer to these bonds. About a century later, in 1435, the magistrates of Barcelona issued a code relating to the usages and customs of marine insurance.

The Hansa merchants of the Baltic and the Lombard bankers of Italy established themselves in London during the Middle Ages. Between them they controlled the banking, commerce, and insurance of England. During the great period of exploration and commercial development during the reign of Queen Elizabeth, the British merchants became strong enough to force the expulsion of these alien groups. In 1598 the last of the Hansa merchants left England. There remained, however, the knowledge of customs and practices—the commercial "know how" including insurance. In 1601 the first English statute was passed governing marine insurance. From that point the transition to the marine underwriters at Lloyd's of London is fairly clear, and insurance in the modern sense of the word begins to take form.

Early insurance ventures suffered from the absence of any scientific method of evaluating the risk to be insured. Gathering and interpretation of statistics are basic in rate making, the first step of which is to determine the pure premium, that is, to forecast with some degree of accuracy the probable amount in dollars and cents of the losses to be incurred during a given period. Prognostication is to a large measure dependent upon the mathematical theory of probability (often called the law of averages). The accepted beginning of this branch of mathematics is an interesting story. About the year 1654 the Duke of Burgundy, who was interested in developing a system for winning at roulette, set the great mathematician Blaise Pascal to work on the problem, one result of which was the formation of the theory of probability.

The basic theories of pure mathematics used by the bankers at Monte Carlo and those used by the insurance actuary are the same. But, the difference must be immediately pointed out. Gambling is the creation of a risk

A Currier and Ives print of a race between two volunteer fire companies in 1854. Since the firemen of the day were not employed by the city, the companies were of the nature of clubs, and membership in some of them was a kind of social distinction. Rivalry between the groups was often intense.

Brown Brothers

which did not previously exist, and is illegal in most of the United States. Insurance is the destruction of risk, and is everywhere accepted as socially desirable. Pascal's work in probability and calculus presented the insurance business with the necessary basis for removing much of the guesswork enabling it to effect the transition to modern times.

While there is evidence of fire insurance long before the Great Fire of London in 1666, this type of insurance received its impetus from that holocaust. Nicholas Barbon opened his fire office the next year, and his name is inseparably linked with this branch of the business. Another such name is that of Charles Povey. He began assuming risks as an individual as was then the custom, and remains the custom at Lloyd's to this day. He soon decided to form a company or partnership which came into existence in 1710, a date accepted as the founding of the Sun Insurance Office, usually conceded to be the oldest fire insurance company in existence. This partnership was converted into a corporation in 1726. Two other companies which were to survive the vicissitudes of the intervening centuries were given royal charters in 1720. They were The Royal Exchange Assurance and The London Assurance. These companies today do a world-wide business and together with other admitted British companies play a substantial part in the present American market.

The American colonies soon followed the example of the mother country, and in 1735 a fire insurance company was organized in Charleston, South Carolina. However, the oldest surviving American insurance company is The Philadelphia Contributionship for the Insurance of Houses from Loss by Fire. This company, which recently celebrated its two-hundredth birthday, owes its existence in great measure to Benjamin Franklin.

Out of an unsuccessful attempt to start a tontine grew our first stock company, chartered in 1794 to write marine, fire and life insurance. This is the oldest American stock insurance company—the giant Insurance Company of North America. Its history, published as "The Biography of a Business," once reached the non-fiction best seller list. Written by Marquis James, it is a fascinating story, not only of the growth of the company, but of our country as well. Born in Independence Hall, Philadelphia, where its first meetings were held during George Washington's administration, this company has grown and prospered with our nation.

During the next 40 years many companies were formed, but few have survived. One of the events which effectively separated the strong from the weak was the great conflagration of 1835 in New York City. Many companies were bankrupt after this disaster; others were left with their assets seriously impaired. Many lessons were learned, but the price of tuition was high. It is to be remembered that "Experience keeps a dear school." One result was that within two years the Commonwealth of Massachusetts passed legislation requiring reserves to be set up. This was the first step in state regulation and supervision of insurance companies, which has grown over the years until today insurance is one of the most carefully supervised and regulated of our businesses.

Fire, life, and marine insurance were the only forms of importance in the United States until after the middle of the 19th century. The Travelers, copying an English idea already 20 years old, issued its first personal accident policy at the end of the Civil War.

Solomon, who in his wisdom so forcefully expressed the evils of personal surety (Proverbs 6:1, 2 and 11:15), would have had to live almost 3,000 years to have seen the first surety company organized to take over this great burden.

Toward the end of the century many new forms, chiefly in what is called the casualty branch, appeared here and abroad. Burglary insurance (an American innovation), liability, automobile, workmen's compensation, and in Germany, initial attempts at "social insurance" were developed.

Insurance has a long, interesting, and indeed a romantic history. For centuries the progress was slow. For the past two centuries, however, the pace has been quickening, and during the past 50 years it has been almost impossible to keep pace with it. Only a hundred years ago, a few simple fire, life and marine policies sufficed. Recently, a list of over 400 policies was printed in a magazine article. From the private individual, who was the original underwriter, we have progressed

to the time where a single company or company group with a billion dollars in assets is no longer a cause for wonder.

When the Insurance Society of New York, Inc., was formed some 55 years ago, there was but little written material on the subject of insurance; textbooks were virtually non-existent. Today, the Society's library contains over 70,000 books and pamphlets in addition to 125 drawers of clippings. Then there were no insurance schools; the first real insurance course had yet to be given at a college; today over two hundred colleges offer one or more courses in this subject and the Insurance Society of New York's School of Insurance lists more than 100 such courses in its catalogue. The tempo is ever increasing. end

It is obviously impossible in an article so brief as this to indicate even the high spots in insurance history. Nevertheless, even at the penalty of shortening it still further, it has been suggested that space be given to an interesting by-product of insurance—the fire mark.

Mr. Alwin E. Bulau, Curator of the Harold V. Smith Museum of the Home Insurance Company, in his profusely illustrated monograph, "Footprints of Assurance," tells of the interesting hobby of collecting fire marks. The following material and quotations are taken from that book:

> Following the Great Fire of London in 1666, Dr. Nicholas Barbon organized the first recorded fire insurance scheme for insuring houses and buildings. The venture was known as The Fire Office. Even during the first year of its existence this office maintained a number of watermen with livery and badges, that is, a fire department. Other fire insurance offices came into being and formed their own fire brigades.
>
> It is understood, of course, that these brigades were not formed for the protection of the public at large or for the mutual protection of the offices. For instance, if the brigade of office A arrived at the scene of a fire and found that the property was insured by office B, it promptly returned home, or merely stayed to watch the fire as a more or less disinterested spectator. At least this appears to have been the rule with the majority of offices.
>
> It is obvious that when the fire brigade crews of all the different offices turned out at the alarm of fire and arrived at the scene of action, there had to be some means of revealing instantly whether the property was insured or not and, if insured, which offices held the risk. The several offices, therefore, devised a metal sign which they fixed on the front of the property in which they were interested. In other words, these signs "marked" the property and are the signs which we know today as "fire marks."
>
> In America, the relationship between fire insurance concerns and brigades was the reverse of that established overseas. Almost as soon as the white man settled upon the eastern seaboard, volunteer fire brigades were formed.

Yet, it was not until 1865 that New York City set up a paid fire department. These early volunteer fire companies were clubs, in certain of which membership was a mark of high social distinction. Rivalry ran high and often flared into fights—while the fire burned.

The first American fire mark was issued by our oldest fire insurance company, The Philadelphia Contributionship for Insurance of Houses from Loss by Fire ~~[*see illustration, page 65*]~~. As the various other American companies were formed, they created their own fire marks following the by now established English custom. While the organization of municipal fire departments did away with the original reason for and purpose of the symbols, their use, nevertheless, was continued in some areas for several decades. Today, the collection of fire marks is a recognized international hobby. In the United States we have a number of very fine collections and a goodly number of collectors of fire marks. These collectors are known as signevierists.

One of the uses of history is to learn from the past the probable course of the future. This article is far too short to present much evidence to substantiate the opening statement to the effect that free enterprise and commercial civilization as we know it cannot exist without insurance in some form. However, even in this inadequate sketch, there are indications that where and when trade and commerce prospered, insurance came into being. The greater the commerce, the more involved and complicated business became, the greater the need for insurance, and the more complex became the problems of the underwriter. For example, one of the more urgent problems with which today's underwriter must cope is the insurance of atomic reactors.

If you have faith in the future economic prosperity of our country, you must believe that the insurance business will grow and prosper with it; the two are inseparable. Its yet undreamed of problems will be yours to solve. Finding the solutions to these problems will be interesting, challenging and rewarding.

INSURANCE AS A PROFESSION—THE CPCU

BY HARRY J. LOMAN

Dean of the American Institute of Property and Liability Underwriters. Dr. Loman has been a Professor of insurance at Wharton School since 1926, and is currently chairman of the Administrative Board for the Huebner Foundation for Insurance Education. He is a graduate of the University of Pennsylvania.

For every career-minded person, his chosen field of life's endeavors should fulfill at least the following tests.

1. Is the activity essential to the welfare of society?

2. Does the activity require knowledge and skill that can be acquired only through intensive education and experience?

3. Is there an *esprit de corps* among its practitioners resting primarily on common training and centering in the maintenance of high standards of ethics and practice?

4. Does the practice of the activity involve the elements of responsibility and character that lead to prestige, dignity, and the respect of the community?

In the not too distant past, it seems doubtful that the practice of property and casualty insurance could have fulfilled all of these tests. However, within the lifetime of those who have not yet selected a career, the increasing complexity of our civilization has so changed the practice of insurance that it can now meet these tests. A complete awareness of this fact has not yet fully permeated the entire community nor for that matter all segments of the insurance business. Nevertheless, it is commonly known the hazards to which society is now exposed have multiplied so rapidly that their control and provisions for their consequences have required radical revision in the qualifications and methods of those engaged in insurance work.

Undoubtedly this situation will be more generally understood and recognized within the next decade or two. Forward looking and progressive leaders realized at least twenty years ago that the demands on the institution of insurance were rapidly changing and set about planning a way to meet them. Since manpower is the key to the solution of these demands, it seemed advisable to take appropriate steps to stimulate the development of the required personnel. For this purpose the American Institute for Property and Liability Underwriters was brought into existence. Its sponsors constitute a complete cross section of the business of property and casualty insurance including such organizations as the American Association of University Teachers of Insurance, the National Board of Fire Underwriters, the American Mutual Alliance, the Association of Casualty and Surety Companies, the National Association of Insurance Agents, the National Association of Mutual Insurance Agents, and the National Association of Insurance Brokers. At its inception the Institute was charged with the responsibility of establishing educational standards and administering them so that properly qualified property and casualty underwriters could be recognized with a professional designation. It was also directed to encourage and foster the training of students in educational institutions and under competent instructors for the career of professional property and casualty underwriters. And further, to cooperate with educational institutions in property and casualty insurance education.

The preliminary work with reference to the nature of the standards had been completed prior to the formal beginning of operations in 1942.

The stated objective of establishing professional standards for property and casualty insurance personnel led some persons to question its feasibility because of their belief that inasmuch as business is not a profession, those engaged in the insurance business could not be professional. Since the title of this article purports to deal with insurance as a profession, I think at this point it is necessary to distinguish between insurance as a business *per se* and the persons engaged in the practice of insurance. It is perhaps the failure to make this distinction that leads to an uncertain conclusion. Thus, medicine *per se* is not professional, law *per se* is not professional; however, no one questions that the practitioners in these important areas are professional. The same line of reasoning can be applied to the field of property and casualty insurance. To implement this idea the practitioners of insurance should be required to conform to the generally accepted tests and standards which are applied in other professional areas. Of course, it always takes a number of years for such matters to become part of the thinking of the average citizen and be generally accepted by him. Moreover, unanimity of opinion on that which constitutes a profession seems impossible to obtain. Therefore, I shall adopt the career tests previously mentioned as satisfactory at least for the purposes of "raising the standard of performance to a professional level" and describe what the American Institute is doing to achieve this goal.

As in all other fields of professional activity, education, experience, and ethical conduct have served as the basis for the standards which are imposed on those who wish to receive the distinctive designation which is awarded to those who are successful in fulfilling all the requirements of the Institute. This designation is known as "Chartered Property Casualty Underwriter" or more generally by its abbre-

viation "CPCU."

Each person who wishes to become a candidate for the CPCU designation is obliged to submit documentary evidence of his educational background which as a minimum must be graduation from a four-year accredited high school or its equivalent. Secondly, his ethical and business conduct record must be above reproach. Thirdly, he must successfully pass five comprehensive examinations which are administered by the Institute. Before the designation is awarded the candidate must have completed at least three years of acceptable insurance experience. However, it is not necessary for the experience requirement to be fulfilled prior to taking the examinations.

Naturally, the passing of the five examinations constitutes the principal hurdle in obtaining the designation and brief mention of their scope is in order. For examination purposes, the subject matter of the curriculum of study is divided in such a way that the first two parts cover insurance principles and practices; the third part, general education which includes economics, American government and social legislation: the fourth, law (this is apportioned between general commercial law and the law of property and casualty insurance), and the fifth examination, which covers accounting, finance, and agency management. The first series of examinations was conducted in 1943 and they have been conducted each year since that time on approximately the same dates in the month of June. Each examination is four hours in length and the five examinations are spread over a two and one-half day period.

Since the first series of examinations were given in 1943, a total of 24,936 examinations have been taken by more than 7500 persons. Nearly 1700 persons have successfully completed all of the examinations and approximately 3500 others have earned credit for passing one or more of the parts.

As the number of CPCU examinees has increased, the demand for instruction has grown correspondingly. This applies especially to the insurance subject matter at the advanced level and special facilities have been developed in many locations. The enthusiastic cooperation of interested insurance personnel and educators in the colleges and universities has made this possible. To assist the educational institutions in this development, the American Institute furnishes advice and guidance regarding the nature and extent of the study which is needed by CPCU examinees in order to perform properly in the examinations. The number of property and casualty insurance courses offered as part of the regular curriculum in colleges of business administration has more than doubled since the Institute was founded and new courses are constantly being added.

In this connection it should also be mentioned that several years ago in cooperation with the American College of Life Underwriters, a joint Educational Advisory Committee was created so that the expanding program would have the benefit of the thinking of an exceptionally well qualified group of persons. The committee consists primarily of deans of colleges of business administration, most of whom have had not only many years of teaching experience, but also the responsibility of administering curricula of collegiate schools of commerce where it is more appropriate for CPCU study work to be undertaken.

The Institute itself does not provide any courses of instruction, correspondence and otherwise. It wishes this function to be carried on by the established educational institutions of the country so that facilities for developing insurance career personnel will be on a widespread and permanent basis. At the same time, the Institute has retained its standards setting, examining, and designation awarding functions. It seems necessary to control these functions of the Institute in order to get complete uniformity throughout the United States.

Each year following the announcement of the results of the examinations, the Institute conducts a national conferment. Of paramount significance at the time of the award or presentation of diplomas is the fact that each candidate is obliged to repeat the Professional Charge which is usually administered by the Dean of the Institute. This Professional Charge embodies all the essential elements of a code of professional practice and is as follows:

> "In all of my business dealings and activities I agree to abide by the following rules of professional conduct:
>
> "I shall strive at all times to ascertain and understand the needs of those whom I serve and act as if their interests were my own; and
>
> "I shall do all in my power to maintain and uphold a standard of honor and integrity that will reflect credit on the business in which I am engaged."

At an earlier point, reference was made to the Society of CPCU's which is an organization consisting of those who have received the CPCU designation from the American Institute. Its principal objectives are to help maintain CPCU standards and promote the interest and development of others in the same standards.

It is important to understand the relationship of the American Institute to the Society of CPCU's because the two constitute a unified operation even though they are separate entities. Thus, the American Institute is the organization which sets the standards, conducts the examinations, enforces the requirements for the designation, and awards the designation to those who qualify; while the Society is an organization whose membership is confined to those who have been awarded the designation and wish to further the objectives of the Institute and see that holders of the designation carry out the obligations imposed upon them under the Professional Charge.

Each year since 1944, the Society has held an annual meeting which brings together the most unique group in the field of insurance. Inasmuch as CPCU embraces all types of property and casualty insurance, the membership of the Society consists of agents, brokers, company underwriters, adjusters, ratemakers, attorneys, and others affiliated with stock, mutual and reciprocal interests. Geographical diversity is added because CPCU's from all parts of the United States attend.

In the three day seminars which are held at the annual meetings, this mixed group explores problems of the industry in an objective and non-partisan manner. Their aim is to ascertain the facts about those things which will be of greatest assistance in making the institution of insurance serve the public fully and well.

The benefits derived from meetings of this kind are infinite and difficult to enumerate accurately or completely. However, it can be said safely that such an annual gathering has provided the insurance industry with a stimulus toward professional standards that is having permanent and far-reaching effect on the manner in which the business is conducted in the country.

The local or regional chapters also provide panels for meetings of various insurance, associations, conduct buyer's clinics and forums on important insurance problems, participate in special study projects initiated by the national Society or by the local chapter itself and sponsor and arrange for the all-industry meetings at which the CPCU designation is conferred and when local presentations of diplomas are made. In other words, they participate in all the activities that are characteristic of the growth and development of a professional group and provide an incentive for others to emulate them.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PART II SEGMENTS OF THE INDUSTRY

FIRE AND

ALLIED LINES

BY JOHN A. NORTH

President of the Phoenix Insurance Company. Mr. North, a graduate of Hotchkiss School and Yale, is a trustee of the American Institute for Property and Liability Underwriters. He is also chairman of the Connecticut Public Expenditures Council.

FIRE INSURANCE, as the term implies, is insurance against loss to property occasioned by fire or lightning. The latter was not originally included, but it is now common in all fire insurance policies. Following the Great Fire of London in the year 1666, fire insurance was first made available in London on houses and their furnishings about a year later. A few individuals started to offer the insurance for stated small amounts at a flat premium charge. Later syndicates of several persons offered fire insurance, and each assumed a percentage of the risk for a similar percent of the premium. Policies were "custom-made" and written in longhand. Today insurance against the peril of fire can be bought in about every corner of the globe. It is available for nearly every type of property value, and the policy conditions have a universal similarity in their fundamental provisions. In the United States and its territories the modern forms of policy contracts are standardized, contain about the same size print type, and are distributed to representatives of the insurance companies in each state. The policies await only the inclusion of final data concerning the owner (assured) and the particular risk to be insured. To be in legal effect they require the signature of the licensed representative of the company and a date of commencement as well as termination.

The rates of premium to be charged on each policy vary according to such things as location of the risk, proximity to fire department apparatus, water hydrant, the adequacy of public water supply, the building construction, private protection such as automatic sprinklers or fire alarm services, etc. The occupancy of a building also is a determining factor in fire insurance cost. Some operations are hazardous while others contain no processing or flammable material. The fire loss experience of a general classification, or group of similar risks, is a determining feature in both rate making and in underwriting by the insurance company which assumes the liability. By class experience we mean the relationship of a total amount of premium volume for a certain group of risks to the amount paid in losses on the same group with both sets of figures obtained for the same period of time. Examples of classes of risks or similar groups are: dwellings, churches, schools, factories, warehouses, and so on. These statistics are gathered in a central place from reports submitted by many companies over specified periods of time such as one year, three or five years. The classes are generally accepted by the business in order to establish a degree of uniformity and to assure credibility of the statistics. There are about 120 of these recognized general classifications in the fire insurance business.

A state licensed fire insurance rating bureau makes and publishes the rates on these classes and on the particular risk to be insured. The rating bureau is staffed by engineers, statisticians, inspectors, computors, and trained clerks. Each bureau services an area of one state or a small group of adjoining states for the benefit of many companies which subscribe to its services.

Use of the rate, which is the amount to be charged for each 100 dollars of liability on a risk, is a starting point. Some companies operating on the mutual plan (no stockholders) expect to compete for business by offering the owner (assured) the prospect of a dividend or rebate at the end of the policy term if their experience warrants. Other companies reduce the rate by as much as 15% or 20% depending on their method of reduced sales expense. Still others, like most of the capital stock insurance companies, use the rate published by the bureau and sell through a network of local agents who are residents of the towns in which they sell insurance.

These agents, being located in the same communities with their customers, are available in case of loss to assist the assured and can render special services in helping their customers get the right kind of insurance for their needs. In the very large cities there are brokers and large brokerage firms which do not act as company representatives but assist the purchasers in finding an appropriate market among the companies for their insurance requirements. Both agents and brokers are compensated by a commission on the premium of each policy they sell.

Fire insurance policies issued today cover basically all *direct* loss caused by fire and lightning. That would include smoke damage from the fire and water or chemical damage resulting from attempts to extinguish the fire. It has long been common practice to add an endorsement broadening the fire policy so as to include loss by certain other perils. These usually comprise loss by windstorm, hail, explosion, riot, falling aircraft, motor vehicle and smudge from faulty heating devices. This combination is known as the "extended coverage endorsement." An additional premium is charged which varies by class of risk and by state. Experience is an important factor in the rate making for this endorsement because of uncontrollable loss causes like wind and hail storms.

When a loss does occur to the property insured, the adjustment becomes very important. Local agents can be most helpful in assisting a policyholder by notifying the company or companies interested, and by guiding the assured in properly making his claim. Most companies use the services of trained adjusters or adjustment bureaus. These are staffed by competent trained personnel who can respond quickly and help the policyholder expedite his claim and thus obtain prompt payment from the company.

The underwriting of fire insurance and its allied coverages mentioned above is performed by a trained staff in each insurance company's head office. The agents or solicitors offer the business to the companies and the risks are accepted or rejected by an underwriter. Upon his responsibility rests much of the selecting and determination of the amounts to be retained or to be reinsured. Thus, the success of the company may be substantially influenced by the judgment of the underwriting staff.

If a risk is acceptable but the amount is too large for the company, the underwriter will reinsure part of it. Reinsurance may be obtained in its simplest form by merely offering part of the business to another company. Perhaps the more common practice is through the use of an automatic reinsurance agreement or treaty with another company or group of companies. This enables risks to be spread around and to avoid large peak lines exposed to one fire.

As fire insurance is a minimum requirement for the protection of mortgages on real estate (also some personal property), it becomes one of the basic ingredients in the extension of credit by banks and financial institutions. Consequently insurance plays a major part in the expansion of our economy in this country as well as all over the world.

We have spoken only of the direct fire protection to property and some allied coverages. The same peril may create a consequential loss. One of the important consequences from fire damage is the interruption of normal business operations. While direct fire insurance pays the loss to the tangible property, a business may lose earnings and have to maintain certain personnel during the period of restoring the property to normal. This kind of protection is called "business interruption" insurance. Certain things like sales agreements, or advertising contracts, leaseholds, and key personnel cannot always be abruptly stopped because of fire and then picked up later. Business interruption insurance pays for the earnings that would have accrued under normal conditions so that these continuing expenses can be discharged. The cost of this type of insurance is usually determined by using a percentage of the basic fire insurance premium applicable to the buildings and contents.

"Rental value" insurance is still another type growing out of the loss of income from property during reconstruction after a fire. Perhaps not so well known is what is called "extra expense" insurance. This provides coverage for the additional and extraordinary expenses incurred in order to maintain an operation at another location or under different conditions while the insured property is being restored to normal. As an example, assume that a newspaper publisher has a fire. In order to maintain his advertising customers and his circulation he arranges for publication in another plant—possibly in another city. The extra cost is bound to be above normal and may include temporary housing for personnel, extra cost of paper stock, extra rental during the emergency and unusual transportation expenses. All of these extra expenses, however, enable the newspaper to stay in business continuously and thus save the more critical loss that goes with closing down. Extra expense insurance was devised to meet such a need. Firms engaged in services requiring continuous operation are usually those interested in buying this form of insurance. They might also include business firms like bakeries, dairies, laundries, or dry cleaners.

In the past few years a trend has developed in this country toward

"packaging" various forms of coverage into one contract. Examples are the so-called "homeowners" policy and the "mercantile block" policy. The broadest forms of both these policies, one designed for the home and the other for business, is to combine many forms of coverage onto the basic fire insurance policy at a material saving in cost over the total cost of all if written separately. While these package contracts are frequently referred to as "all risks" policies they are not quite that because they do exclude some major perils, and in the case of the mercantile policy especially the perils are specified. These "package" policies are well designed for the homeowner or merchant who already carries many of the individual forms of protection that are now offered on a combination basis.

Many of the property and casualty companies which formerly limited themselves to certain specific lines of insurance, such as fire or marine insurance, have now become multiple line companies in order to compete for these package policies and certain all risks forms. Few major companies today confine their writings to a limited number of classes. Either through broadened corporate charter powers or affiliation with another company by ownership or management, a majority of property and casualty companies can now write all lines of insurance except life insurance.

This means that there are many new opportunities for young men developing within each company and within the agency and brokerage firms. College graduates are in demand for training that may lead to such positions as underwriters, field and agency service representatives, engineers, adjusters, auditors, statisticians, salesmen, financial and investment analysts, electronic system operators, and other attractive and interesting jobs. Thorough training is essential, of course, but from the more talented and experienced men develop the future executives of these companies. The fascination of the property and casualty insurance business has attracted many young men, and some women too; but the prospects for the future seem to offer a greater variety of occupations within each company than heretofore.

Fire insurance, dating back nearly three centuries, has long ago reached maturity. It is considered the basic foundation for many of our present day types of insurance protection which are currently issued to protect homes, manufacturing and mercantile establishments, public institutions, and financial businesses of every description.

* * *

OCEAN AND

INLAND MARINE

BY JOHN A. DIEMAND

President of Insurance Company of North America Companies, Philadelphia. Mr. Diemand began his career in 1903, after graduation from Girard College, an institution he now heads as President of the Board of City Trusts. Mr. Diemand was elected president of the North America, the oldest and largest stock fire and marine insurance company in the country, in 1941.

ASK THE MAN in the street what the term "marine insurance" means and he will probably reply that it is insurance on ships and their cargoes. His grandfather would have been correct had he given the same answer, but the marine insurance business in the 20th century has developed far beyond. It is still concerned with waterborne cargoes and the vessels that carry them, but in many respects the term is now a misnomer.

It is difficult for the man in the street to understand that freight carried by railroads, trucks, and aircraft is a proper subject for marine insurance, but he is amazed when he learns that the insurance he carries on his wife's jewelry and furs and on his own golf clubs and outboard motor is marine. His laundryman and his physician are prospects for marine coverage and so, too, are the department store, the theater, the radio and television station, the art gallery, the symphony orchestra, the jewelers, the contractors, and even the toll bridge over which he commutes to work. The list is by no means complete.

Marine insurance, whatever its form, has been in demand for over 4,000 years and still is very much in demand. The perils of the seas are too much for any merchant or shipowner to take on singlehanded. Without insurance the volume of foreign trade would be only a fraction of what it actually is, and it is well recognized that the prosperity of the world and of every country in it is dependent upon active trade.

Inland marine insurance has developed naturally and logically from its ocean progenitor. As our country's economic structure grew, so did the needs for types of insurance coverage that did not yet exist. Coverage was needed for property shipped overland whether by rail, truck, or plane and this was provided by the underwriters. They also satisfied requests for insurance on types of movable personal property that were not ordinarily a part of commercial shipments. Thus inland transportation insurance, with related bailee and location coverages, was developed and after it a veritable host of specific policies which came to be known as "floaters." Marine underwriters were the logical people to originate these coverages since they were less circumscribed by regulation than their fire colleagues and since they had the training and experience best adapted to cope with the problem.

As the oldest form of insurance, ocean marine has inevitably influenced the newer fields of inland marine, fire and casualty. It is not too much to say that every property and liability policy bears to some degree the imprint of marine insurance. But as these other branches have gone their separate ways and found answers to their own immediate problems in their own way, the effect of marine insurance has become less and less apparent. Therefore, to have a clearer understanding of what marine insurance itself is, it is necessary to have some knowledge of the basic principles and characteristics that distinguish it.

Losses are of two general types—total and partial. In marine insurance a total loss may be "actual" or "constructive." An actual loss occurs when the goods are destroyed, when the assured is permanently deprived of his possessions, or when they arrive so damaged as to cease to be a thing of the kind insured; an example of this last, called a "loss of specie," is cement arriving as rock. Disasters likely to give rise to total loss include fire, sinking or stranding of the vessel, collision and loss overboard in the course of loading or discharge. A constructive total loss occurs when the expense of recovering or repairing the goods would exceed their value after this expenditure has been incurred.

Partial losses in ocean marine insurance are spoken of as "average." In its insurance connotation, the word "average" means "loss less than total." Average is of two types: "particular" and "general." Particular average refers to a loss that falls upon a single interest, such as the owner of a specific cargo shipment. General average is a loss that affects all cargo interests on board a vessel, as well as the ship.

Most marine losses are actual total losses or particular average. General average, however, is by no means so uncommon as to be merely a matter of academic interest. General average means the voluntary destruction by the ship master of part of the vessel or her cargo, or the deliberate expenditure of funds, in time of grave peril. Examples are the expense of towing to port a ship which has lost her rudder or cargo jettisoned to correct an increasing list. This general average sacrifice, as it is known, must be successful in saving the venture. From the most ancient times, the maritime laws of all trading nations have held that such a sacrifice shall be borne by all for whose benefit the sacrifice was made and not alone by the interest sacrificed.

The principles of general average have been refined over the years and they have inevitably come to reflect the increasing complexity of present day commerce. A vessel owner may and does declare his vessel under general average whenever, for the common good in time of danger, an intentional sacrifice of ship or cargo has been

made, or an extraordinary expenditure has been incurred. In actual practice, general averages result mainly from strandings, fires, collisions, and from engaging salvage assistance or putting into a port of refuge following a machinery breakdown or other peril. The preparation of a general average adjustment is a complex cost accounting operation; it is entrusted to professionally trained persons who are called "average adjusters" and frequently requires many months for completion.

The good faith of the parties is an important element in the drawing of any contract. It is of paramount significance, however, in marine insurance. For example, the underwriter may be called upon to insure a ship or cargo, perhaps many miles away, without having an opportunity to see the risk. He may have certain documentary information at hand to confirm the statements of the applicant but he must also accept his word that the subject matter of the insurance, so far as he knows, is not already at the bottom of the ocean. The ingredient of all dealings between underwriter and assured is *uberrima fides*, the utmost good faith, because in order to do business at all each must be able to rely upon the integrity of the other.

As contrasted with other kinds of contracts, there are certain principles which apply specifically to those of insurance. A policy of insurance on property is basically a contract of indemnity. The assured's recovery from the underwriter should leave him in approximately the same condition as he was immediately prior to the loss. He should not profit by receiving from any one company or combination of insurers any more value than he lost, nor should he be allowed to receive insurance payments in addition to damages awarded him in a law suit stemming from the same loss. This in turn implies that only the monetary value of property can be insured and that the party recovering under the policy had an insurable interest in the property lost or damaged. For example, a person has an interest in a marine venture when he will benefit from the safe arrival of vessel or cargo, or when he will be prejudiced by their loss, damage or detention. Of course, it is immediately apparent that this covers a broad field. Not only do the owners of the vessel or cargo benefit from their safe arrival or suffer from their loss, but so do a number of other people who, in the operation of trade, will have an ultimate benefit or loss and who will also, therefore, have an insurable interest.

The marine underwriter, in addition, is protected by certain agreements or conditions that are known as implied warranties. Like the general principles just enumerated, these are not actually part of the written policy but have just as much legal force as if they were included in the expressed terms of the contract. Breach of one or more of these warranties may void the insurance.

All marine policies are subject to the implied warranty that the vessel concerned is seaworthy for the voyage, that she is sound in all respects and able to cope successfully with the normal weather conditions she will encounter.

Another implied warranty is that of "no deviation," an agreement that there will be no departure from the voyage as it is contemplated. Deviation is sometimes necessary or excusable and it may well be that the assured will have no control over it or even any knowledge of it at the time it takes place. Consequently, it is common for the assured to be "held covered" by the policy with obligation to report the change in voyage when it becomes known.

The "all risks" policy is a characteristic of modern marine insurance. There is a distinct difference between "named perils" and "all risks" underwriting, but the latter is not the result of someone's sudden brilliant inspiration. Rather, its evolution has been very gradual. The perils clause of the standard Lloyd's policy goes back well over 300 years and identifies the perils as "of the Seas, Men-of-War, Fire, Enemies, etc." These perils were all that were necessary 300 years ago, but as ships changed from wood to steel and from sail to steam, increased in size and speed, and now in some trades are being supplanted by the airplane, these perils no longer were enough to meet the needs of trade. How did marine underwriters keep in step? The coverage at all times must be right or the parties concerned may find themselves with a loss inadequately covered, or not covered at all.

By the 20th century goods carried in foreign trade had become so complex and values so large that a more comprehensive form of cover was needed to meet the requirements of trade. For additional premium underwriters met this need by extending their policies, where required, to cover such additional perils as fresh water, breakage, leakage, theft and pilferage, contact with fuel oil or other cargo, ship's sweat and many others. Not even all these perils were enough to protect completely some of the foreign traders, and the next step forward was an all risks policy, covering against all risks of physical loss or damage from any external cause but excluding war risks.

Today war risks are written in a separate policy.

Regardless of the fact that all risks insurance is sold, the customer does not have to buy it. He is at liberty to insure any risks that he wishes, from total loss only to all risks, provided his underwriter will agree. One thing no one can insure against is the inherent vice of the goods themselves, as for example, spoilage of fresh fruit or vegetables shipped in an ordinary cargo vessel. Another thing that cannot be insured is an ordinary trade loss. A certain amount of wine will always seep through the staves of a cask, and certain other commodities invariably dry out and lose weight during the voyage. Any underwriter who agrees to insure inherent vice or trade loss will eventually live to regret it, although it is quite something else again to insure perishables on a refrigerated vessel.

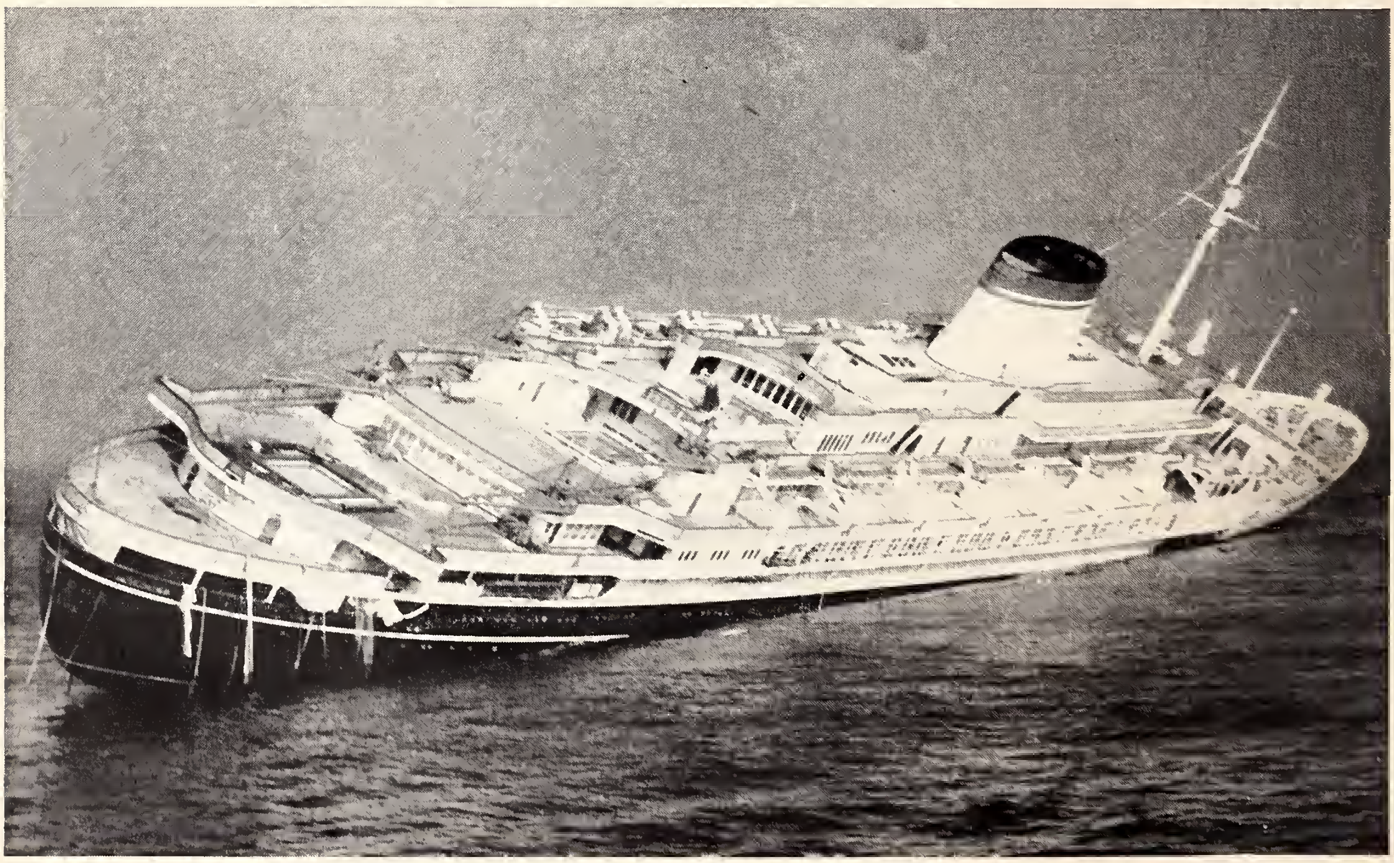
The valued policy has been a characteristic of ocean marine insurance from the earliest times, but very few other types are written on a similar basis. Under this arrangement the underwriter and the assured agree in advance that, in the event of loss, there will be no question as to the value of the property insured and that, if the loss is total, the assured will receive the full amount of insurance.

In fire insurance one of the principal objections to the valued policy is that of moral hazard. Since the insured is in possession of and has control of his property there may be a considerable inducement for him to have a loss and to collect the full amount of his insurance. Besides, after a loss it is relatively easy to determine the actual cash value of the property destroyed or damaged and to adjust the loss on that basis. In ocean marine insurance, the circumstances are very different. The property, such as a cargo shipment, is completely out of the assured's control so that there is little if any possibility of fraud. In addition, if the shipment goes to the bottom there is really no way then for the assured to prove his loss; that is, to establish the value of the shipment. Thus the valued policy is a necessity.

From its very beginning marine insurance has been coverage on movable property. For years marine policies covered property only while it was actually in transit, but gradually the concept was enlarged to include location coverages naturally related to transportation. Consequently, the policy was extended to cover temporary storage before, during or at the close of the voyage. The same idea has carried over into inland marine insurance and has been considerably expanded in that field. Through all of the coverages developed, however, runs the thread of mobility.

Today there are many companies and groups of companies writing a tremendous volume of marine insurance. While it does not represent as large a percentage of their total writings as it did before the full development of fire and casualty lines, it still is and will continue to be an important segment of the property insurance business.

Ocean marine insurance is comparatively static for it is closely geared to the volume of overseas shipments and the size of our active merchant marine. Even so, the premium volume has increased in the last thirty years, from $37 millions in 1925 to almost $160 millions in 1955. In contrast, inland marine insurance is extremely dynamic as evidenced by the steady introduction of many new types of policies in recent years. In the same period of time, inland marine premium volume has surged from $31 million in 1925 to more than $300 million in 1955. Its potential for growth in the service of the insuring public is practically unlimited within the scope of the American economy.



The full meaning of ocean marine insurance is brought into dramatic focus in large scale sea disasters such as the sinking of the Andrea Doria following a collision with the liner Stockholm in July, 1956. Claims must be settled not only on the ship itself, but on the cargo and passengers, plus whatever interests on shore depended on a safe voyage. *Wide World Photos*

FIDELITY BONDS

BY A. F. LAFRENTZ

Chairman of the Board of American Surety Company. Mr. Lafrentz joined American Surety in 1913, was elected president in 1932, and chairman of the board in 1955. A graduate of Polytechnic Preparatory School of Brooklyn, he is a Certified Public Accountant in New York State.

THE FIELD OF fidelity suretyship represents one more spoke in the wheel of protection afforded business to relieve it of some of the major uncertainties. Fidelity bonds, in their simplest forms, indemnify employers against loss caused by the dishonest or fraudulent acts of their employees or agents. When one considers that losses sustained by American business resulting from the dishonesty of employees aggregate in excess of $500,000,000 each year, at times greater than the destruction caused by fire, the need for fidelity coverage can be readily appreciated.

The origin of fidelity suretyship seems to have been lost in antiquity. Probably the earliest reference to it was around 2250 BC when a state fidelity insurance plan was contained in the code of Hammurabi. However, it was not until the last half of the 19th century that corporate fidelity suretyship made an entrance on the American business scene.

In the early beginnings of modern fidelity suretyship (1880–1915) employees were covered through the issuance of individual or schedule bonds. This usually required a very formal procedure with the employee making application to the surety company for bond. If the employee was acceptable as a risk, the surety would issue its bond, requiring the employee, as principal, to sign it jointly with the company. As business became more complex and impersonal, it was evident a less cumbersome method of bonding had to be devised.

Although individual and schedule bonds are still in use, the bulk of the fidelity business is written today under some form of blanket coverage. Blanket bonds automatically bond all employees of a single employer, from janitor to president. As employee dishonesty was just one peril to which an employer's property was exposed, it was natural that a broader kind of protection would evolve. For banks and other classes of financial institutions, a type of "all risk" protection for money and securities emerged in the form of the "bankers blanket bond." This bond not only covers the dishonesty hazard but also includes the exposures of burglary and robbery on the bank's premises as well as the holdup of the bank's messengers or armored cars while transporting property. Additional criminal hazards involving the acts of forgery, larceny and false pretenses committed by clever confidence men, swindlers and common cheats against bankers, running into millions each year, are also insured under the same bond.

A whole gamut of hazards, not insurable by any other means, such as the misplacement or mysterious unexplainable disappearance of money, securities and other similar valuable property, or the damage and destruction of such property, whether effected with or without negligence of any of the bank's employees, are covered by this all-inclusive bankers blanket bond. Examples of the practical application of this coverage to losses are legion, some too incredible to believe they could happen. In the spring of 1956, a large metropolitan New York bank reported the unexplainable disappearance of a single one million dollar United States Treasury certificate. Although special searches were conducted for weeks by teams aggregating more than 100 employees, the missing certificate has not as yet been found. In another case, when termites invaded a bank's vault and destroyed a valuable stamp collection which it was holding for safekeeping, the bankers blanket bond responded for such damage. Losses caused by fire and flood, both potential catastrophe hazards, are also covered under the broad protection of a bankers blanket bond.

Practically every bank in the United States is now protected by some form of blanket bond. Notwithstanding this universal acceptance, new and additional hazards are constantly being created for banks by reason of our ever expanding economy. Continuous study is, therefore, needed in order to provide the protection required by such institutions.

The non-financial classification—which includes all types of commercial, mercantile, industrial and service organizations—presents an area in which there is the greatest potential for development for fidelity bond coverage. While banking institutions are required by law to bond their employees, the non-financial classifications are not. As these businesses do not hold property in the same fiduciary capacity as do banks, governmental laws and regulations are not as concerned about the continued solvency of commercial enterprises as they are of financial institutions. However, dishonesty losses are as frequent and as severe in the non-financial classifications as those suffered by banking institutions, perhaps even more so. Combatting the joint problems of non-insurance and under-insurance in this field presents both a challenge and an opportunity to the fidelity segment of the insurance industry.

Although not strictly classified as fidelity, the "public official bond" field is so closely related to this area of suretyship that its writings are usually

included in the total over-all fidelity statistics. This close connection stems from the fact that the fidelity of the bonded individual represents the basic and most predominant hazard under a public official bond.

Most persons appointed or elected to public office, especially those in the money handling category, are required by law to furnish bond conditional upon their faithful performance of duty. Failure to qualify for such a bond precludes the public official from taking office.

The public official bond provides protection to the governmental body far beyond the regular honesty exposure. The bond guarantees that the duties of the office will be performed not only to the best of the occupant's ability, but also in compliance with the laws governing the office. The scope of protection afforded by the words "faithful performance of duty" means that the bonded official will account for and pay over all monies and property received or which should have been received had he performed his duties faithfully. Failure to so account for any cause other than an Act of God will not relieve the official of his responsibility to pay over such funds. It means that if the bank in which he placed the public money fails—or if he

Headlines indicating the need for fidelity bonding.

retained such funds in his office and his safe was burglarized—or if a fire consumed the money in the safe—or if the public official or one of his employees were held up and robbed of the funds while they were being conveyed to the bank for deposit—he, the public official, would be responsible and must make good to the governmental body. Should the official be unable to pay the loss, then his surety must respond up to the amount of its bond. Upon payment of the loss, the surety looks to the public official to reimburse it for the amount it was required to pay on his behalf.

In view of these obviously onerous responsibilities, it remains a mystery why any person would voluntarily seek public office and place his personal fortune in such a vulnerable position. Fortunately, and perhaps as a partial answer to this riddle, it is possible for public officials in many jurisdictions to minimize, if not relieve themselves entirely, of many of these hazardous contingencies. For example, the county treasurer may be able to be released from depository liability if he places funds in the banks designated by the governing body as official depositories and requires collateral. By securing appropriate insurance, the public official also can protect himself against many of the other risks which he faces as the custodian of public funds. With adequate fire insurance, fidelity bonds on his deputies, and "all risk" insurance on money and securities, the major insurable hazards would be covered, leaving only his personal honesty and competence as sources of concern to himself and his surety.

From this brief outline it must be apparent that fidelity suretyship revolves around human factors. It is a field tied closely with the public interest and, therefore, charged with a tremendous responsibility. A person's inability to qualify for a fidelity bond may prevent him from securing employment with a chosen employer. It may mean that the individual must seek his livelihood elsewhere, in an occupation where a bond is not a prerequisite for employment. The fidelity bond underwriter cannot, and does not, take this obligation lightly.

The field is not otherwise lacking in human interest. Seldom does one read a daily newspaper without having his attention directed to a substantial embezzlement by a heretofore trusted employee. For every dishonesty loss which reaches the newspapers because of its size or some other newsworthy reason,

there are hundreds which go unnoticed, except to the individuals involved. Holdups of banks, their messengers and armored cars are probably more dramatic and make the headlines whenever they occur.

Fidelity bond underwriting starts with the application completed by the individual desiring to be bonded. While the modern application has been streamlined to a remarkable degree, its two pages of requested information are sufficient for probing adequately into the applicant's past. In addition to checking prior employments, time is found to investigate recent scholastic records, not necessarily from the academic standpoint, but as to the trustworthiness, gambling, and drinking characteristics of the applicant.

Dishonesty is usually the result of the direct and premeditated acts of the individual. However, too often embezzlers are abetted in their stealings by poor accounting systems, lack of internal control, and inadequate periodic audits. When an employer's method of operation makes it easy for an individual to steal, unfair temptation is placed before the employee. Should either a real or fancied need for money arise, such as for large medical expenses, a promising business venture or other gamble, it is difficult to predict whether an individual will succumb to temptation.

The fidelity underwriter is as much interested in the nature of the employer's business, its ethics and reputation and what is done to prevent dishonesty from starting, as he is concerned about the background of the employee. Furthermore, the underwriter wants to be assured that should an employee commence stealing, the system of internal control within the employer's organization and the type of periodic audits conducted afford reasonable opportunities to bring the embezzlement to light as soon as possible. Where other hazards are also insured, as in the case of bankers blanket bonds, the fidelity underwriter must be able to recognize good and poor risks from the standpoint of burglary and robbery of the bank's premises, to evaluate the potential holdup hazard caused by bank messengers transporting high-value property, and to estimate the possibilities of loss from fire, flood or the plain negligence or incompetence of employees. In addition to considering the relative importance and seriousness of these individual hazards in a given risk, the fidelity underwriter is vitally interested in how any such losses from them can be minimized, if not prevented entirely. Loss prevention is as important to the insuring public as it is to the insurance company and, hence, forms an important part of underwriting.

Many varied and unknown factors are involved in the underwriting of fidelity risks. The unpredictable human element, among other forces, would prevent it from ever becoming an exact science. An experienced underwriter must possess a broad background of general information. He must also acquire, largely through experience, a thorough understanding of the operations and special problems affecting the fidelity and allied hazards in many different types of businesses.

For anyone contemplating fidelity bonding as a career, the two most important prerequisites for success are a well developed "bump of curiosity" and an analytical mind with a special liking for problem solving. While not essential for the beginner, those who have had college courses in the fundamentals of accounting, finance, banking, and commercial law will find this background extremely helpful.

Whether one's interest is solely in the field of fidelity bonds or in combination with other surety and insurance lines, either will afford opportunities for challenging work with monetary rewards commensurate with one's ability and progress.

SURETY BONDS

BY B. H. MERCER

President of the Fidelity & Deposit Insurance Company. Mr. Mercer's career with F & D began in 1911, when he was hired as a clerk in the fidelity bond underwriting department. In 1929, he was appointed head of the judicial bond department and from there advanced through several other posts to the presidency. He is a graduate of University of Maryland.

Suretyship in a broad sense comes into being whenever one party guarantees the performance by a second party of some specified undertaking or obligation. The Statute of Frauds in England provided that to be held valid and binding, any contract to answer for the default of another must be in writing and signed. Following this rule directly is the surety bond which plays such a prominent part in the business world of today.

Most people who are not closely associated with suretyship in some manner, understandably think of it as another form of insurance. This confusion probably stems primarily from the fact that the industry is supervised by the insurance departments of the various states, and surety bonds are marketed through the same agents who handle the writing of fire, automobile and the many other forms of property insurance. Other than these completely external factors, however, there is little in common between insurance and suretyship.

The basic theory of all insurance is the pooling of risks so that the premiums of the many will be available to pay the losses of the unfortunate few. A certain and reasonably well predictable percentage of losses is expected. In exchange for the stipulated premium charge, the insurance company agrees to reimburse the insured for any loss covered by the terms of the policy. This policy is the complete contract between the two parties of interest, the company and the insured.

Suretyship, however, is an entirely different concept. In all its aspects it is much more closely related to banking functions than to the principles of insurance. It was more than coincidence that two of the early pioneering companies in the surety field were also in the banking and trust business.

Essentially, suretyship is an extension of credit and the premium represents a fee charged for that service. Whereas a banking institution lends money at an agreed rate of interest, a surety company lends its guarantee for a stipulated charge. As in banking, theoretically no losses are anticipated if the risk is properly underwritten. The surety bond is a three-party contract in which the surety company guarantees to the obligee the performance of some specified undertaking, just as a co-endorser on a note guarantees its payment to the lender by the borrower. In the event of default by a principal and the payment or performance of his obligation by the surety, the latter, like an endorser, has the right to expect reimbursement from the defaulter. Unlike a policy of insurance, a surety bond is never complete unto itself. It always guarantees the terms of some collateral agreement, written or implied, which may be an actual contract, an oath of office, or a promise or understanding.

Suretyship may correctly be catalogued among the oldest of professions. Its practice apparently arose with the dawn of civilization, and the hazards involved in it were impressed early on the minds of man. An inscription found in the Temple at Delphi warned that "suretyship is the forerunner of ruin." King Solomon, in his wisdom, cautioned against it. The Book of Proverbs in the Bible repeatedly points out the dire results of acting as surety, and Ecclesiasticus admonished, "Suretyship hath undone many of good estate, . . ." Shakespeare, in his "Merchant of Venice," built the high point of his drama around the contract of suretyship of Antonio in favor of Shylock.

The need for suretyship, which was exhibited so early, increased as the complexities of associations and dealings among men developed. It was near the middle of the 19th century, however, before the first company or "society" was organized in London to undertake the obligation of suretyship as a business venture. In the United States, corporate suretyship came into being with the growth of capital investments following the Civil War.

A company later to become the present Fidelity and Casualty Company of New York was formed in 1876. The American Surety Company of New York followed in 1881, the Fidelity and Deposit Company of Maryland in 1890, and the American Bonding Company of Baltimore in 1894.

By the turn of the century the federal government and most of the states had enacted legislation authorizing the acceptance of corporate suretyship wherever bonds were required by law. By that time more than 25 surety companies had been organized. Only about half of these pioneers, however, survived the first few years of operation in the unknown fields that lay before them. It took faith, courage and conviction to venture into the untried business and foresight and wisdom to avoid successfully or withstand the many hidden and unanticipated hazards. Those who proceeded cautiously, feeling their way, proved the practicability of guaranteeing the integrity of man in all phases of business and commerce.

From a cautious beginning on a restricted local basis, the operations of most companies have spread throughout the United States and its possessions. Suretyship is now closely tied to all lines of economic endeavor.

In the important field of construction, contract bonds are required by the federal and state governments and

by most lesser governmental bodies in connection with practically all building and engineering projects financed from public funds. Private owners, also, are depending more and more on the surety guarantee for the successful completion of construction contracts according to plans and specifications, and the payment of all labor and material bills.

A surety bond of some form is now required in connection with practically every form of legal action. As a protection to the other party of interest on many occasions, a bond must be filed by a litigant to gain any privilege or remedy prior to a final decision by the courts on the merits of his claim. Whenever a fiduciary is appointed to a position of trust, such as administrator, executor, guardian, trustee or receiver, a surety bond is normally required to guarantee the honest and faithful discharge of his duties.

Whenever the federal government, a state, or municipality grants a license or permit to engage in certain businesses or to exercise certain privileges, a surety bond may be required to protect the grantor or the public against violations of the conditions of the license or abuse of the privilege.

The use of surety bonds speeds up materially the handling of imports of foreign products. Under the guarantee of customs bonds to pay whatever duty is found to be due, an importer can gain immediate possession of his wares, rather than await the final determination of the amount to be paid. Also by storing imports in a bonded warehouse, the payment of the custom duty may be postponed, within limits, until the goods are actually needed.

The alcoholic beverage and tobacco industries are two typical illustrations of the widespread service of suretyship. Practically every step in the manufacturing and distribution of these products is taken under some form of surety guarantee.

These examples are but a few of the more common uses of suretyship. In the field of business relationships, there are thousands of transactions requiring the stabilizing guarantee of a surety bond to reduce the credit risk. The surety industry is constantly devising new forms to meet expanding needs.

Without corporate suretyship, the pace of American business would be slowed immeasurably. Many forward and progressive steps would not be possible or, at best, could be taken only slowly and at far greater cost.

The part played by it in the economic life of the nation was highlighted this spring with the awarding of the contract for the construction of the Priest Rapids dam, powerplant and appurtenances in the State of Wash-

One of the principal functions of surety bonds is to guarantee the completion of construction projects such as the Grand Coulee Dam on the Columbia River in Washington. Practically every construction project paid for by public funds requires this form of insurance.

Acme Photo

ington. This project will cost approximately 92 million dollars and is scheduled to be completed in 1961. Without the guarantee by corporate sureties of the fulfillment of the terms of the contract, the risk involved in this huge undertaking, spread over so long a period of time, would have been prohibitive. The bond in this case, in the amount of 50 per cent of the contract price, represents the largest such instrument ever written, and 32 surety companies joined in its execution.

While a spectacular case such as the Priest River project points up the economic necessity of suretyship, its daily and routine contributions to business operations are even more vital. In the post-war years of constantly increasing construction demands, qualified contractors, with the cooperation of surety companies, have been able to undertake and complete unprecedented volumes of work.

As it pertains to the construction industry, suretyship permits the establishment in advance of a definite cost and lends assurance that an undertaking will be completed at a price within the predetermined figure. The extension of credit by furnishers of labor and materials is facilitated through the guarantee that their bills will be paid. With the credit risk removed, lower prices are granted for materials and services, resulting in a considerable saving to owners. Through the use of bonds a much greater volume of credit can also be safely extended, enabling contractors to undertake larger workloads than would be feasible if the credit risk were measured only against their own resources.

Bond issues in connection with large undertakings would find a much restricted market and certainly a less favorable interest rate except for the use of suretyship to assure the completion of the projects.

Although relatively young as a business enterprise, corporate suretyship has rapidly grown into one of the vital fibers in the fabric of American business. We can get a true picture of growth and present importance from the number of companies now engaged in the business and from the dollar volume of premiums derived from it.

The first US Treasury Department list of approved sureties was issued in 1908 and listed 24 companies whose bonds would be acceptable to the federal government. Their aggregate qualifying power, which is limited to ten per cent of their combined capital and surplus, was $2,359,427. The latest such list includes 149 companies representing a total qualifying power of over $350,000,000.

In the final years of the 19th century, the total premium income from all forms of suretyship amounted to but a few thousand dollars. By 1954 the total derived from surety bonds alone (excluding fidelity) had risen to over $140,000,000.

As an essential factor in the financial, commercial, and industrial phases of our economy, suretyship is an intensely interesting and fascinating business. New problems arise regularly to test the resourcefulness of those who must find the solutions.

Field office representatives of surety companies come into daily contact with many aspects of the business life of a community. Their duties bring them into association with bankers, attorneys, auditors, engineers, architects, public officials, and other leading business and professional men. From these associations and in order to evaluate and properly underwrite the surety risks presented, the surety man learns much concerning all these important businesses and professions.

Competition is keen and the pace is not one for the sluggard. But for those of imagination, vision, and ideals, a vocation in suretyship offers a stimulating challenge and ample opportunity for commensurate rewards in a vigorous and dynamic field of endeavor.

* * *

AUTOMOBILE

INSURANCE

BY J. DOYLE DEWITT

President of the Travelers Insurance Companies. Mr. DeWitt, attended Drake University, joined Travelers as a claim investigator in Des Moines in 1925, and moved to the home office in 1927. In addition to his position with Travelers, he is a director, or trustee of several corporations and service organizations.

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AUTOMOBILE INSURANCE is big business. It's a growing business too—in keeping with the growth of the automobile industry and with the general economy. More than any other single object, the automobile has become the dominant American symbol of prosperity and successful living. Automobile ownership is taken as a sign of personal economic progress. Since the automobile represents for most people such a large expenditure, automobile insurance has become an increasingly important factor in safeguarding the values which automobile ownership represents. Here are just a few indications of what the automobile means to our economy.

1. Spending for automobiles and related services in 1955 amounted to $25 billion.
2. The automobile industry is the biggest employer among manufacturing companies having a million wage and salaried employees.
3. About 40% of consumer credit outstanding involves automobile time payments.
4. In 1956, the biggest highway building program in United States history ~~will~~ began. In the next thirteen years, $33 billion will be spent for Federal and State governments on a forty thousand mile interstate network.
5. In 1956, the automobile industry ~~is~~ spent over $2 billion on new plant and equipment. ~~This does not include the large amount being spent on tooling for the 1957 models.~~

Automobile insurance has shown a dramatic development of its own in both the extent of its coverage and the scope of its protection.

In 1956, the total premium income of the property and liability insurance business ~~will be~~ was approximately $10.5 billion. Of this, slightly more than $5 billion ~~will be~~ was accounted for by automobile insurance—automobile liability, automobile physical damage. In other words, automobile insurance accounts for one half of the property and liability insurance business and is continuing to increase its share of the total. In 1956, premium income for automobile insurance ~~will be~~ was twice what it was just five years ago.

× There is every indication that this dramatic up-surge will continue. In 1945, total motor vehicle registration was 31,035,000. In ten years, the total registration doubled to 62,760,000 in 1955. It is estimated that in 1960 there will be at least 71,000,000 registrations and by 1965, total registration will be over 80,000,000.

Important socio-economic forces are contributing to the dynamic saga of the automobile. The continuing shift to the suburbs from metropolitan areas has vastly increased the market for the family car. Eighty per cent of the metropolitan growth in the United States in the next twenty years will be in the suburbs. We are already seeing some of the effects of this. ~~In 1955, 71% of American families had one automobile and of these car-owning families, 12% had two or more cars.~~ It is estimated that in 1960 there will be one automobile for every three persons ~~in this country~~.

Against this socio-economic background, the history of the automobile insurance business has been recorded. Its development ranges from the year 1898 when the world's first automobile liability insurance policy was written on a one-cylinder horseless carriage, to the present, when the question of compulsory liability insurance has been highlighted in the press and the legislative councils of many of our states.

Expressed in the simplest terms, automobile insurance covers three main dimensions involved in operating a motor vehicle. The first is liability, which is an individual's responsibility toward the person or property of someone else; the second is physical damage which comprises the loss to one's own car from collision, fire or theft. The third is protection for one's self, one's family, and guests. Automobile liability insurance is divided into bodily injury and property damage; automobile physical damage protects against collision, fire and theft, and other perils.

Since the inception of automobile insurance, important additions have been made involving the third dimension, increasing the breadth and scope of its protection. These have included medical payments insurance which provides funds to pay for medical treatment of injuries sustained by the insured and guests in his car; death benefits for the insured; and weekly indemnity provisions to partially offset the earnings on the part of the insured while recuperating from an accident. Since the early days of automobile insurance, when the policy was generally considered written on the car itself, the emphasis has shifted until today the policyholder is protected when he is driving cars other than his own.

These changes have meant that automobile insurance has been partially extended to the area of life and accident insurance. They signify a trend toward broadening protection which has been gaining momentum in the casualty and property fields for the past few years. This trend toward more complete coverage is a symptom of a merchandising revolution which is rapidly changing the methods and

procedures of the insurance business. The young man who comes into the insurance business today enters at a time of great changes in almost every phase of this gigantic enterprise. Far from being a static, complacent, or overly conservative business, insurance, in general, and the casualty and property fields in particular, offer tremendous opportunities for fresh, creative thinking, particularly in the areas of merchandising, marketing, and underwriting.

The automobile insurance business falls into four main units which correspond to the basic industrial divisions of development, production, sales, and services. They are:

A. Actuarial
B. Underwriting
C. Agency (Sales)
D. Claims

The college graduate can almost certainly find a challenging career in one of these divisions.

Actuarial personnel usually have a mathematics background in college. The first few years in an insurance company are a mixture of practical work and study. While some people are fascinated by the intricacies of actuarial work, many college graduates in the past have shied away from an insurance career because they think of it largely in terms of actuarial mathematics. Actuaries are certainly vital but by no means dominate the business.

Their function is to provide the underwriting and sales departments with the large volume of digested figures which are absolutely necessary for the conduct of the business.

Just what does the actuary do? He prepares rates, participates in the creation of new policies, and the revision of old, studies the "experience" of automobile drivers in respect to losses incurred in accidents, works closely with nation-wide rating bureaus in the development of rates and filings. He often deals directly with the 48 state insurance departments on the filing of rates. He plays a large part in the preparation of accounting statements. On his skill in the interpretation of statistical data depends whether or not the automobile lines of an insurance company will break even or show a profit.

The underwriter decides whether, who, when, and why someone or some firm will be insured after the business has been developed. Good underwriting judgment is not developed by formal training alone, but rather by long experience, especially in dealing with human nature. The automobile insurance business serves the public in one of its most hazardous enterprises, driving. Thus, this form of protection is closely related to human nature in all its strengths and weaknesses.

The underwriter takes the statistics of the actuaries and adds to them his appraisal of the particular situation. In the determination of rates, the underwriter's judgment as to how things will be in the future is a key element and proves that more than cold figures go into the rate-making process. Especially in the automobile lines, there are public relations and political factors which test the skill and objectivity of the underwriter.

The work of the underwriter is directly tied in with the agency department which is responsible for bringing in the business on which the underwriter passes judgment. The agency department is concerned with the sales end of the business. While, for the most part, insurance is sold by agents who are independent businessmen, insurance companies maintain large staffs of salaried personnel who advise and assist the agent in sales matters.

In the automobile insurance field there are two essential methods by which the product is sold. The first of these is the American Agency System under which salaried agency personnel

supervise commission agents under contract to the company. The commission agent is not an employee, he is an independent businessman who has wide latitude in choosing the company he feels best suited to protect the interests of his clients.

The second is the Direct Writer System under which agents selling the automobile policy are employees of the company, either on a salary or on a low commission plus salary. They must place their business in the company which hires them.

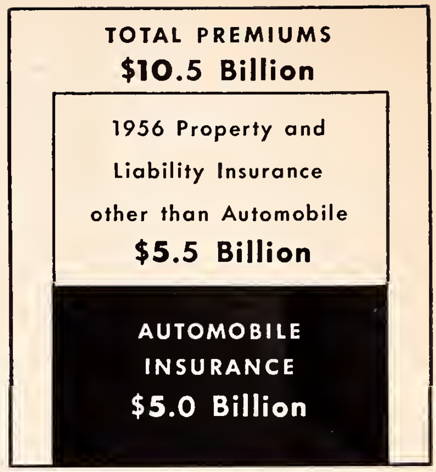
The Direct Writer System companies have had a tremendous growth since World War II, largely because of rate differentials between them and the American Agency System companies. These differentials are due primarily to the manner in which the direct writers select their risks, the low commission structure they have established, and the range of service they provide.

At present, the automobile insurance industry is witnessing a great competitive battle between these two systems of distribution. The competition is stimulated by the great increase in automobile insurance and the requirements of financial responsibility and compulsory insurance laws which have induced or required many previously uninsured motorists to obtain coverage. Many individuals who are now car-owners want this insurance protection as cheaply as it can be obtained. In the field of automobile collision insurance, many who have purchased cars on an installment basis need this coverage because banks, dealers, and financial companies require it. The companies which operate according to the American Agency System believe that they provide services to the policyholder which warrant the additional charges necessary to maintain agency operation. They believe further, that this service aspect is highly important when one contemplates the increased hazards and legal complications to which motorists are exposed today.

The fourth area of the automobile insurance business may be covered under the general heading of Claims. Basically, automobile insurance policies resemble one another very closely. They may differ in certain aspects of their protection but fundamentally, they are the same. It is when a claim arises under the provisions of an automobile policy that the insured knows whether or not he has purchased a first class product. The prompt, fair settlement of claims is the test of good automobile insurance.

Claims work requires versatility, tact, and special knowledge in the fields of law and medicine. The claim man has a double mission: to protect his company against unjust, fraudulent or over-inflated claims and to see that the policyholder and the claimant is treated with utter fairness. This latter aspect of his responsibility is by far the most important, because the reputation of an insurance company depends on the public's satisfaction with its handling of claims.

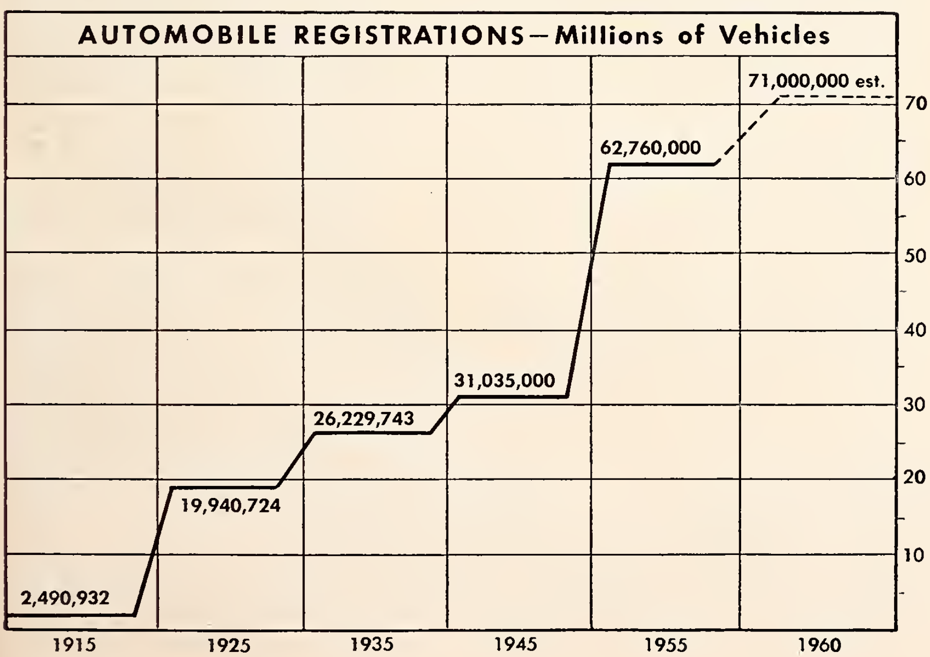
Under ordinary circumstances, the claim representative handles a particular geographical territory. His work is as interesting and as varied as people themselves. Normally, he is authorized by the company to settle most personal claims and to issue drafts. The company relies upon his judgment in ascertaining the liability involved, the rights of the claimant and the evaluation of the damages. For the college graduate who is interested in people, law, and in the ascertaining of facts in a given situation, claim work is an ideal starting place in the insurance industry. As a matter of fact, individuals who have started out in each of these four categories have risen through the ranks to become heads of the companies they have served.



There are a number of other phases of the automobile insurance business apart from the insuring of individual cars. The underwriting of "fleet" risks, taxis, buses, trucks, etc., requires considerable judgment and skill. Companies maintain staffs of engineering personnel who devote themselves to studying the complex aspects of this type of coverage. Considerable activity is carried on in both the preventive and post-accident claim aspects in order to reduce accidents and thereby lower rates. These personnel have often devised new equipment and methods to increase driving safety and comfort. The automobile insurance field in general is vitally concerned with safety work of every kind and most companies writing automobile insurance are active in local and national highway safety movements.

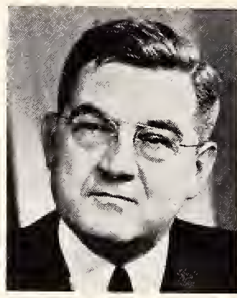
Automobile insurance has become a social and economic necessity as the automobile has taken its place as our nation's number one helper and hazard. With millions of cars on our highways being driven by fallible human beings, chances of accidents and the resultant toll in human suffering and economic loss have greatly increased. Automobile liability insurance is the ultimate symbol of foresight and responsibility on the part of everyone who drives a motor vehicle on the crowded highways of our nation.

The future of automobile insurance offers fascinating possibilities. It should provide a stimulating field of endeavor for anyone starting out on a career in the business world.



THIRD PARTY LIABILITY

BY WILLIAM T. HARPER



President and Chairman of the Board of Maryland Casualty. Mr. Harper was educated at Baltimore City College, and has taken special courses at Johns Hopkins and the University of Maryland. He joined Maryland Casualty in 1911 to work in the surety department, became a vice president in 1935, and was named to the chief executive office in 1947.

The "third man" theme which enters into this title may cause some confusion. The explanation, however, is simple.

In most forms of property insurance, such as fire insurance, the contract is between two parties—the insurance company and the policyholder, and is designed solely to protect the interests of the policyholder against loss of or damage to his *own* property. When a loss occurs, the company pays to the policyholder the amount of the loss.

In "third party" liability insurance, while the contract is still between the same two parties—the company and the policyholder—a sort of secondary benefit is extended to a "third party," who is not actually a party to the insurance contract.

The coverage protects the policyholder against loss by reason of his being found legally liable for having caused injury to or death of a "third party" or damage to the latter's property. The payment, however, is made to the third party who has suffered the actual loss.

The theory of liability arising from negligence has a long and interesting history. Among the English-speaking people, it formed a part of the earliest Saxon customs, predating by far the Norman conquest and probably even the early Roman invasions. When a Briton of early times injured or killed another, he was required to pay at a rate fixed by law, called the *angylde*, as reimbursement either to the injured person or his next-of-kin. William the Conqueror's courts gave the Saxons the Norman words *tortfeasor* to mean a wrongdoer, and *damages* to mean the amount paid, or *angylde*.

This same theory is a part of the law of every civilized nation today: if a person negligently or carelessly injures or kills another or damages another's property, he is liable for the financial loss caused.

By reason of the thousands upon thousands of negligence lawsuits which fill the courts of the land each year, liability insurance is of the utmost importance. A court might decide (as it has in the past) that an injury may be worth three or four hundred thousand dollars.

A man's house can be taken away from him just as certainly by a judgment and execution as by a fire. His bank account can be lost just as surely through a court decision as by burglars or robbers. But, more than that, a judgment for an amount of money can hang over him for even as much as the rest of his life, affect his future earnings—and may not even be discharged in bankruptcy should he attempt this step.

The law imposes upon everybody the duty of using "due care" at all times, so as to prevent injury to others. Failure to exercise that degree of care entitles the injured person to damages from the person responsible. What constitutes "due care" depends to a large extent on the circumstances surrounding the accidental injury or damage, and in disputed cases the facts are left to the decision of the court. We can't always be careful, but the law presumes otherwise.

In third party insurance, we make three main promises in our contract with our insured.

First, we promise to pay on behalf of the insured all sums which he shall become obligated to pay as a result of his being found legally liable for an accident causing injury to or death of persons or destruction of property, up to the limit of liability insurance he has purchased. This means simply that if a court finds he has been negligent, and assesses damages against him in a civil action, the insurer steps in to assume those damages, subject to the amount of insurance he has bought.

Second, we promise to investigate fully the accident, and defend him in any civil suit brought against him, alleging negligence on his part, even if the suit or claim is completely groundless, false, and fraudulent. If in the course of investigation the insurer determines that a court of law is likely to find him liable, an attempt to work out a fair damage settlement is in order, to avoid the expense and annoyance of a court appearance.

Third, if a trial does take place, and if the insured is found liable for the damages, the insurer agrees to pay the cost of court and whatever legal interest is assessed after entry of judgment and before payment. This is in addition to the amount of judgment or limit of liability, whichever is less.

These are the insurer's three main promises. There are others as well. For example, we agree to pay for first aid expense which our insured assumes at the time of accident whether or not he is legally liable for it. We agree to pay for any expense and appeal bonds which the insured incurs at our request during investigation and trial. In certain types of liability policies (for example, automobile) we agree to pay the costs of bail bonds required as a result of a traffic violation out of which the accident arose.

The complexity of liabilities imposed by law on individuals and business has caused the insurance business to divide the field into two main parts: automo-

bile liability and liability other-than-automobile. Due to the increased use of the automobile in our daily living, and due to the fact that automobiles cause injury every 23 seconds and a death every 14 minutes, the importance of this branch is easily seen, and a separate article on automobile insurance is found elsewhere in this magazine.

Other-than-automobile insurance is divided further into five sections, to enable the insured to purchase exactly what he needs, dependent on his exposure to hazards.

Premises and Operations insurance covers the insured's legal liability arising out of the ownership, maintenance or use of the premises which the insured occupies and the operations of the insured's business, either at the premises or away from them. On an average of once every three minutes, such a claim is presented against businesses in the United States, for injuries and alleged injuries sustained in hundreds of ways: by boiler explosion, falling down stairs, being hit by falling boxes, by falling over, blundering into or slipping on objects, loose scatter rugs, toys, tools, displays or refuse left around by employees, just to give a few of the more common instances.

Elevator insurance covers his liability arising out of the maintenance and operation of elevators on his premises. This is an unusual coverage in that most of the premium which is paid by the insured is *not* used to pay claims. The elevator is the safest form of public transportation: there are fewer injuries on elevators than on any other form of public transportation. The bulk of the insured's premium in this line of insurance is used to keep those injuries at a bare minimum by a regular program of inspection of all insured elevators. The insurance industry trains a large number of men each year to know intimately every working part of the elevator from the safety contacts on the doors to the innermost workings of the motors, and these men are constantly in the process of inspecting elevators owned, maintained or operated by businesses.

Products insurance protects the insured from claims arising out of foreign substances or defects in products which he manufactures or sells. Under certain circumstances, the seller of a product (even if he did not manufacture it) may be held liable for an injury arising out of the use of the product. These claims run all the way from "mental illness" to death, caused by contamination of food products, bottles which explode under pressure, foreign substances in cosmetics, and similar claims.

Owners protective insurance covers the liability of the insured when claims are made against him, alleging that independent contractors working for him have caused injury through their negligence. This is another interesting coverage, because of the law behind it. Under normal circumstances, an owner is not liable for the acts of an independent contractor working for him, *but* the independent-contractor relationship cannot be used as a defense where the work to be done is dangerous. An interesting case was the one where the owner of the house decided to have it moved and set up at another location, after a new cellar had been dug under it. The owner left the state for a short vacation; the independent contractor found bed rock where he thought there was loose dirt, and found it necessary to blast a cellar out of the rock. In connection with his blast-

ing operations, he did considerable property damage in the neighborhood. Although the contractor was liable as well, he didn't have anything in the way of assets; so the owner (who didn't even know the blasting was going on) paid—happily, through his insurance company.

CONTRACTUAL insurance covers liability which the insured may assume under a contract or agreement. Examine carefully the next apartment house lease which you sign. There may be a "hold-harmless" clause in it by which you agree to assume the landlord's liability in connection with the maintenance of the premises, and "hold him harmless" from claims by persons injured. Examine the agreement which is signed when a railroad agrees to maintain a side track on another's property for the benefit of that other person. In order to obtain a spur track or side track, the owner of the premises must assume the liability of the railroad in connection with that side track. These are only two examples of the liability which a person may assume: liability which is primarily someone else's, but which, by virtue of the "hold-harmless" agreement, is passed on from the person primarily responsible to one who is only secondarily liable.

When one or more of the above five divisions of insurance is bought by an insured, it is normally called *schedule* liability; he has purchased a schedule of liability insurance against whatever hazards he feels are present in his business. In the case of a large company with a number of different operations, several places of business, and involved contractual relationships, *comprehensive* insurance is written to cover all of the above five hazards, as they may appear.

COMPREHENSIVE liability insurance is also written on certain classes of business where the exposure will permit the use of rates of this sort. For instance, we have the comprehensive personal liability policy to cover the individual's liability. He owns or maintains a house or apartment; he indulges in sports, or may have pet animals. He has some contractual exposure and some owners' protective exposure, in connection with maintenance of his house. In order to simplify the individual's purchase of insurance, and make it unnecessary for him to consider all his various liabilities, a comprehensive liability insurance policy is usually written to cover practically every hazard to which he can be exposed, for one single premium.

EMPLOYER'S liability insurance is another branch of the "third party" insurance important enough to be treated separately in another article. At common law, an employer is obligated to show care in furnishing reasonably safe appliances, work-areas and general premises, and furnish reasonably competent fellow-servants and supervisors. The common law has been supplemented in all 48 of the states by Workmen's Compensation Acts and the insurance which is required for the protection of industry.

This is only a brief outline of the standard types of liability insurance in use. Professional men, such as doctors and dentists, need malpractice liability insurance, to protect them against the claims that they have violated their ethical code.

The nature of commercial, industrial and personal hazards are continuously being changed by modern technological developments and scientific advances. To keep pace with this march of progress, the insurance industry is constantly altering and adapting policy coverages, and creating new ones to provide the necessary protection.

INSURING

MISCELLANEOUS RISKS

BY J. M. BREEN

Third Vice President of Lumbermens Mutual Casualty Company. A member of the American Bar Association, Mr. Breen is the head of the Insurance Division of the School of Commerce at Loyola University. A graduate of Notre Dame and John Marshall Law School, he has been with Lumbermens since 1929.

YES, there should be insurance to cover everything. And there is. Other chapters in *Insurance World 1957* treat the more widely known coverages. But there is an insurance coverage for almost everything. For example, here, briefly, are three accidents:

> A massive flywheel whirls off a motor and tears an opening in the side of a building.
>
> Cold storage eggs are spoiled when the refrigeration equipment breaks down.
>
> The staff of skilled employees in a furniture plant take permanent employment elsewhere when a low-pressure boiler blows their former employer's plant out of business temporarily.

What do those stories have in common? The losses from all three disasters, which is what they were to the owners of the companies involved, could have been covered by boiler & machinery insurance.

Here are three more typical losses:

> A family returns from its vacation to discover the silverware has been stolen from their home.
>
> While casting for bass, a fisherman's reel and rod slip out of his hand and disappear forever.
>
> A borrowed lawnmower is broken on a partially hidden rock.

What do these losses have in common? All three could have been covered by one of the new package policies for homeowners.

Here are two more losses:

> A jewelry store proprietor opens shop one morning to find the safe empty after one of his employees had left it open the night before.
>
> A truck driver and an employee in a manufacturing plant conspire to steal merchandise from the manufacturer.

What is the point of this? Insurance *is* available to cover the losses from all these actions. The coverages may not be as widely known as life, fire, accident and health, workmen's compensation and liability insurance, but to the victim, they're just as important.

Let's take a look at these coverages, one at a time.

BOILER AND MACHINERY

Boiler & machinery insurance is primarily a form of two-party casualty insurance. The early writers of boiler & machinery insurance patterned themselves after the fire plan of underwriting, and the pattern in many respects continues today. This is understandable when you recognize that the property covered under fire and boiler insurance is the same, the only difference being the cause of the loss.

Probably the most unusual feature of boiler & machinery coverage is that loss prevention plays a greater role here than in any other line, including fire insurance. An average 40 per cent of the premium is devoted to loss prevention. Another interesting feature is the size of the premiums and losses involved. It shows a similarity to fire insurance because losses in the millions are not too uncommon, and premiums approaching that are by no means unknown. That doesn't mean that all premiums are large. A small premium can buy a residence boiler policy that will do what the commercial contracts do for industry.

The standard policy for boiler and machinery insurance gives only the basic coverage needed for the boiler and machinery risks. In order to cover any particular kind of risk, it is necessary to attach one or more schedules. A single policy may cover a number of different kinds of objects by attaching the proper schedules.

Indirect losses, such as loss of income, spoilage, and other losses growing out of the direct damage to boilers and machinery, constitute a very serious hazard. To cover these, endorsements are used to supplement the direct coverage provided under the basic policy and schedules.

HOMEOWNER PROTECTION

The combination of various insurance coverages, related to one type of risk, has been sought for quite some time. Package policies for home and industry are now available in such forms as "comprehensive dwelling" policies, "homeowners" policies, and the "commercial block" and "mercantile block" policies for industry. The more widely-adopted policies are those for residence use, and so our discussion here will be limited to the homeowners policies. However, the philosophy of the commercial package policies is the same as that for the homeowners and comprehensive dwelling contracts. Actually, the homeowners and the comprehensive dwelling policies provide essentially the same type of coverage.

One difference, however, is that under the homeowners, the amount of insurance written on the dwelling determines the amount of insurance on the contents and the limits of the theft protection provided. Under the CDP, the policyholder may select the amount of insurance he wishes on contents and for theft, irrespective of the amount of coverage on the dwelling. Another difference is that the premium for the homeowners policy is nondivisible and

all coverages available under a given form must be accepted. Under the CDP, the premium is calculated for each coverage provided.

There are three different forms of the homeowners. These are designated A, B, and C. The Homeowners A provides fire and "extended coverage" protection for the dwelling and its contents against identified perils. These perils include, in addition to fire, loss from lightning, windstorm, hail, explosion, riot, civil commotion, aircraft, smoke, and nonowned automobiles. Homeowners A also provides robbery, burglary, larceny, and theft protection, both on and off the premises, and the liability protection you would get under a comprehensive personal liability policy.

The Homeowners B policy provides the fire, EC, theft, and liability protection of the A contract *plus* "additional extended coverage" protection. AEC covers loss from owned automobiles, vandalism, malicious mischief, water escape, explosion of steam systems, rupture of hot water heating systems, ice, snow, freezing, falling trees, collapse, glass breakage, and landslide.

The Homeowners C contract provides all the protection of the A and B policies but instead of identified perils, the Homeowners C provides fire, EC, AEC, and theft protection on an all-risks basis. This means that all perils to the dwelling and contents are covered except for the stated exclusions common to any all-risk policy. These exclusions include such items as war, insect damage, radio-active contamination, industrial smoke, inherent vice and wear, tear, and gradual depreciation.

The Homeowners C has basic liability protection for a $25,000 limit. Homeowners A and B have standard liability limits of $10,000. In any case, higher limits may be purchased for the liability portion of the policy.

THEFT POLICIES

In contrast to the new homeowners policies, probably few insurable perils require such a patchwork of policies as does the protection from loss by theft. And yet, many insurance buyers, even some commercial policyholders, think that if they have a burglary policy they are covered for a stick-up. And some few even think that if they have a safe burglary policy they are covered for shoplifting.

The sound advice to "read your policy" is of special importance when it comes to a theft contract. The policywriters make a strict interpretation of what is meant by burglary, robbery, theft, larceny, and other forms of taking another's property. Coverage for one form of stealing does not mean the policy covers across the board. Although such a contract is available for some situations, it is expensive and therefore seldom sold. There are four forms of insurance against wrongful taking that are worthy of particular but brief consideration: "mercantile open stock," "combination robbery and safe burglary," "broad form money and securities," and the newer package policies.

Mercantile open stock burglary insurance covers loss of or damage to merchandise, furniture, fixtures and equipment by burglary or attempted burglary when the store is not open for business. The coverage for damage extends to the premises and to the building itself if the insured owns it or is liable for damage to it.

Under the combination robbery and safe burglary policy, money, securities, and property are covered against loss due to robbery outside the premises, robbery inside the premises, robbery of the payroll, or safe burglary. The policyholder may have one or a combination of these four coverages. Of course, the premium charge varies with the amount and kind of protection purchased.

Broad form money and securities protection is pretty much what its name implies. This contract covers theft losses within and outside the premises for all direct loss of money and securities and, on losses within the premises, for damage to the premises caused by robbery or safe burglary or attempt. It can be extended, by endorsement, to give almost complete crime coverage under one policy. Some of the available additional crime coverages are open stock burglary, open stock theft and broad form payroll.

Package policies have become widely accepted for theft insurance too. Part of this development grew out of the popularity of such contracts as the 3-D—dishonesty, destruction and disappearance. The 3-D policy combines, in one contract, the following coverages: loss through employee dishonesty, loss of money and securities within and outside premises, loss of securities from safe deposit box and loss through forgery of outgoing instruments. Other coverages may be added at the option of the policyholder. These optional coverages include open stock burglary or robbery, open stock theft and loss of payroll on and off the premises.

* * *

THE FUNCTION OF REINSURANCE

BY EDWARD G. LOWRY JR.

Chairman of the Board of General Reinsurance Corporation. Mr. Lowry was a vice president and general counsel of Maryland Casualty Company from 1934 to 1943. He is a graduate of Harvard, Oxford and Columbia Law School.

In order to understand the function of reinsurance and its place in the insurance industry, it is necessary first to grasp clearly the broad and basic concept of the whole insurance mechanism. Fundamentally, insurance is a mechanism through which a great many individuals spread the risk and cost of mishaps of one sort or another among themselves. Now, if all the people in the world bought all their insurance from one gigantic company, that would be all there was to the insurance process. All risks would be effectively pooled and everyone would pay his share of the costs of all accidents. In fact, however, it doesn't work that simply. There are a great many insurance companies—more than four thousand in the United States alone and thousands more throughout the rest of the world. And just as a single individual doesn't want to have to carry the cost of a serious accident alone, neither does a single insurance company. It wants to spread its own risk so that no single accident will upset the "averages." Let's say that the "average" cost of all accidents is one thousand dollars. If an insurance company is hit with a one million dollar claim it will knock that "average" sideways in the individual company's book of risks. (One assured had a twenty million dollar claim a couple of years ago.) To protect itself against any such contingency, an insurance company itself keeps a portion of the risk and buys insurance for the balance and this particular type of insurance is called reinsurance, and the company assuming the risk is called a reinsurer.

The risk spreading process does not, however, stop at this point. Just as the individual who bought the insurance and the insurance company that sold it did not want to be caught with a large loss, neither does the reinsurer, so it in turn keeps a part of the risk and reinsures the balance—and its reinsurer (generally abroad) in turn does the same thing, and so on until the risk is broken down into pieces so small that it can't really hurt anyone. When a really large loss occurs—and I'm talking about the million, two million, five million dollar loss—the assured receives one check from his insurance company but before the loss is finally settled checks will probably have been drawn by a long line of reinsurers in dollars, pounds, francs, marks, kroner, lire, pesetas, rupees and a good many other currencies as well.

So much for the theory and function of reinsurance. Through what mechanism does reinsurance operate?

A good deal of reinsurance is effected by the simple process of exchanging portions of individual risks directly between insurance companies either by specific agreement covering individual risks or by blanket agreements covering classes of risks. The conduct of this operation is a part of the operation of an insurance company and since it is not a career or business in itself will not be discussed in this article.

The larger segment of reinsurance transactions are handled for American insurance companies by professional reinsurance organizations. These professional reinsurers may be domestic organizations, American branches of foreign organizations or foreign organizations not licensed to do business in the various states.

Despite the close kinship between insurance and reinsurance, procedures differ widely between the two. By the same token, the job of the man working for an insurance company differs widely from the job of the man working for a professional reinsurer.

Perhaps the major difference between the two lies in the matter of the relative volume of detail. An insurance company necessarily handles an enormous volume of repetitive detail. Each of the thousands of individual policies must be processed. The facts with regard to the risk must be studied, the decision to write or refuse the policy must be made, the rate must be calculated, the policy written up and issued, the premium collected, the records kept. After the policy has been written, it must frequently be amended to change coverage as the situation of the assured changes, and this process again implies a multitude of detail. In the event of a claim, more detail arises—and again in the event of cancellation or renewal of the policy.

For an insurance company, therefore, efficiency of operation is a prime requisite to profitable operation and the "expense ratio," i.e., ratio of expenses to premiums, is apt to command as much managerial attention as "loss ratio," i.e., the ratio of losses to premiums. By the very nature of the operation, an insurance company necessarily has a larger number of employees doing clerical and routine work.

By comparison, a reinsurance company handles very little detail and has, therefore, comparatively few routine operations or routine clerical employees. A reinsurance company will write its business with a small fraction of the employees required to write a comparable volume of direct insurance. To a professional reinsurer, therefore, effective and resourceful underwriting, rather than expense control, is of paramount importance.

Reinsurance may take one of three basic forms:

(a) quota share

(b) surplus share

(c) excess of loss.

A basic understanding of the mechanism of each of these three methods of reinsurance is necessary for an understanding of the business of the professional reinsurer.

In quota share reinsurance, the reinsurer agrees to take a stated percentage of the risk or risks involved. The reinsurer then gets the same percentage of the premium (less a commission allowed to the insuring company) and pays the same percentage of the losses. In effect, the reinsurer is a partner with the ceding insurance company in so far as the reinsured business is involved.

In surplus share reinsurance, the ceding insurer determines how much of a particular risk it wishes to keep and cedes off the balance to the reinsurer. Let's say a company has written a fifty thousand dollar risk and only wants to keep ten thousand dollars net for its own account. It will cede off four-fifths of the risk (or forty thousand dollars) to a reinsurer. Here again, as in the case of quota share reinsurance, the reinsurer will receive his share of the premium (four-fifths) and will pay the same share of any loss under the original policy.

In excess of loss reinsurance, the insurer agrees to pay the first part of the loss up to an agreed amount under the reinsured risk and the reinsurer agrees to pay any and all loss above that amount. Using the example above, the insurer instead of keeping ten thousand dollars of the risk would agree to pay the *first* ten thousand dollars of loss under the policy and the reinsurer would agree to pay any loss in excess of that amount. Since most of the losses under the sort of policy in question will be considerably less than ten thousand dollars the reinsurer does not get his mathematical pro rata share of the premium. Instead he gets a share of the premium negotiated with the ceding insurer, based upon the reinsurer's experience with business of the character reinsured.

It will be readily seen from this brief explanation that in quota share reinsurance, the reinsurer's loss ratio will parallel that of the ceding insurance company. In surplus share reinsurance, the reinsurer's loss ratio will tend to approach that of its ceding insurer but won't exactly match it because the percentage of reinsurance will vary from risk to risk. In excess of loss reinsurance, on the other hand, there need be no correlation between the loss ratio of the ceding insurer and of the reinsurer. The ceding insurer could have a big series of losses which fell within its loss retention, leaving the reinsurer loss free, or nearly so. On the other hand, the ceding insurer could have a good loss experience at its own loss level and at the same time give the reinsurer some very large losses at the excess level.

How does a reinsurer get his business? Unlike the insurance company, which may get its business from thousands of agents and brokers or directly from tens of thousands of assureds, the reinsurance company has relatively few clients since its clients are insurance companies. Its relationship to its clients is a very special one. Many years may have gone into its building. It is based on mutual confidence, trust and friendship. Above all, it is based on the concept of the utmost good faith. The accounts which an insurance company renders to its reinsurers are generally in bulk and without supporting detail. As between the parties to the reinsurance contract, the test of its meaning is not based on the correct technical interpretation of the contract, but on what is fair and reasonable under all the circumstances. Disputes between insurance companies and their reinsurers as to their mutual rights and obligations are extremely rare.

The successful reinsurance man must be not only a good technician; he must have imagination, a willingness to try out new ideas and, above all, an ability to put himself in his client's place and to see a problem from his client's point of view. He gets his business like any other good salesman by calling on his clients and his prospects in their offices. While he doesn't live out of a suitcase all the time, he is never very far from one and he expects to pick it up and be on his way at a moment's notice.

He is apt to get a wider view of the insurance industry as a whole than his counterpart working for an insurance company. The insurance company man knows the business of his own company thoroughly. He knows a good deal about the business of other companies of his same size and type using the same bureaus and associations. But the professional reinsurer deals with all types of insurance companies—big and little, stock, mutual, and reciprocal, tariff and non-tariff, domestic and foreign.

Moreover, his dealings are apt to be with the senior and more experienced people in his client's organization. He doesn't get rich and he may get ulcers, but he has a full and interesting life. He has a minimum of routine repetitious tasks, he makes a lot of good friends and he gets to know the United States thoroughly and at first hand.

SECURITY IN THE INDUSTRIAL AGE

BY S. BRUCE BLACK

Chairman of the Board of Liberty Mutual Insurance Company. A graduate of the University of Wisconsin, Mr. Black has shown an interest in workmen's compensation since its inception. Joining Liberty Mutual in 1917, he was president from 1924 to 1956. Mr. Black is also a director and former chairman of the American Mutual Alliance.

Someone has said that every time science and industry take a new step forward these days, we must set about at once insuring ourselves against it. In fact, this observation carries with it a solid core of truth, for the more complex a society becomes and the more interdependent the various facets of its economic and social life, the more fundamental becomes the role of insurance.

Perhaps it is true that man's first group living came about in a struggle against natural forces and predators which might have destroyed him if he remained in isolation. But as our community has become more and more complex, developing from tribe to village to the modern industrial state and nation, it has in turn opened up a new world of accident and hazard exposure.

If we established a foothold as a society by adapting successfully to the natural environment, we have ended by adapting the environment to fit our own particular wants and needs. We have created an "artificial" environment which has exposed us to new responsibilities, new fears and anxieties, a new climate of competition and risk.

During the last century we accustomed ourselves to accepting this growing artificial environment as perfectly natural, and perhaps because of the luxuries and comforts it brought us, to adjusting to whatever demands it made upon us. We were, for example, pretty resigned about industrial accident and disease. It was the price of the machine age. Even today there is some indication that horsepower is under exploitation on our highways at the expense of human life.

Yet, on the whole, our modern society has decided it can't afford that price, and we are now in the midst of a counter-revolution against the destructive forces of the industrial environment. We have, if you like, wanted to have our cake and eat it too—to have a mechanized and increasingly industrialized society and at the same time weave into it both social and economic security.

Insurance began as a mutual effort of a group to spread the loss by any one of its members over the total, to reduce what would otherwise be an individual catastrophe to a nominal communal loss. It assumed that the group's members were mutually exposed to a common danger such as theft, or loss at sea, or hurricane damage, or fire, which might strike without apparent discrimination. In its origins insurance was pretty nearly limited to what we now mean by "catastrophe insurance," except of course that it was on a much smaller scale, because business and industry themselves were on a much smaller scale.

But as industry has grown and become more complex, its "common dangers" have increased to encompass not only the risk of losing new products and capital, but the risk involved in gaining, producing, and enjoying them. In effect, our industrial society, assessing the risks to which its members have been exposed in the new environment, has set about to insure itself.

It would be impossible today to cut into the fabric of our economic and social life without exposing these protective strands of insurance. To sit down at any of the nation's bargaining tables is ultimately to discuss insurance, for worker security at some point becomes a question of worker insurance. Social security, automobile liability, flood insurance, health insurance, these are almost the daily concern of our social, economic, and political leaders. Even the peaceful use of the atom has awaited a feasible insurance protection.

It is no accident that this extension of insurance has coincided with the gradual acceptance by industry during the past fifty years of new social and economic responsibilities. In fact, one of the most remarkable developments within our nation's capitalistic structure (too little known abroad) has been the unparalleled growth of our industry supported insurance programs.

But we have told only one side of the story if we speak simply of the development and broadening of insurance coverage. For though insurance has spread until it covers almost every conceivable risk, that coverage alone remains an economic evasion of the central problem we began with—the problem of dealing with and removing the risk itself.

This is the other side, and a most important side, of the insurance coin. The very broadening of the insurance base with its attendant costs has set up powerful economic incentives for reducing the toll of accidents, disease, and loss within our industrial society. Our private insurance companies have gradually developed into competing service organizations staffed with doctors, engineers, physicists, industrial hygienists, and chemists, who have worked with industry to make our plants and factories safer places in which to work.

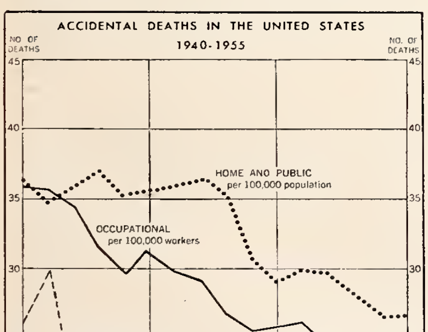
In improving our working conditions, in employee relations, in health and welfare programs, in management's own acceptance of new responsibilities, these developments have

pretty well revolutionized the structure of the American business community. Yet historically, the roots of this revolution go back less than fifty years ago to the passage, shortly after the turn of the century, of our workmen's compensation laws.

Prior to that time, during the latter part of the nineteenth century, the security and working conditions of the employee were in a largely neglected state. Industry was held responsible for the death or injury of an employee only when the accident was a direct result of employer negligence. Such a system tended to work against the interests of the worker, for negligence was a difficult thing to prove, and court action, which was the worker's only resource, was often a slow and prohibitively costly business. Moreover, under the old common law, the employer had three defenses which fairly well nullified any employee hope of remuneration.

The first of these was known as the defense of "contributory negligence" which abrogated the employee's rights for payment if he was in any way responsible for the accident. The second was the "fellow servant" defense, where the employee could not collect if the negligence of a fellow worker contributed to the accident, and the third was called the "assumption of risk" defense, under which the worker was assumed to accept the normal risks involved in his employment.

There were some small corrections in these conditions shortly before the turn of the century with the passage of so-called "employer liability" laws. But despite these reforms, the old concept of necessary employer negligence continued to hamper not only a just compensation for employee injuries, but efforts to curb and control the rising accident toll itself. As long as the negligence idea persisted, employer would continue to blame employee and employee blame employer, so that no fruitful attempt was or could be made to study and eliminate the accident causes.



Sharp reductions in accidental deaths in industry can largely be traced to the efforts of insurance companies.

It was against this background that the workmen's compensation theory was debated by our states and, despite its revolutionary nature, enacted eventually into law by all of them.

Under the new compensation laws industry was held solely liable for any injury or disease which arose "out of and in the course of" an employee's job, regardless of his negligence or contribution to the accident. In theory, the cost to industry of this new responsibility would then be charged off against production and eventually be borne by the total consuming public, including the workers it protected. By eliminating the concept of "fault" for the accident, the system opened the way for a productive effort to study and control the accident causes. It also provided the business community, and in particular the private insurers serving that community and competing within it, with strong economic incentives to study and control these accident causes.

Thus the result of the workmen's compensation legislation was to set in motion corrective forces to the growth of risk in the industrial environment. And in the face of the tremendous industrial expansion and development of the last half century, its achievements have been nothing short of remarkable.

This is not to say, of course, that we have reached a point where we can be complacent about the safety and security of our working conditions. Take one problem, for example, which today presents a major challenge to industry and its insurers, the problem of industrial noise and its detrimental effect on a worker's hearing.

The question of whether a man should be compensated for a partial as well as total loss of hearing on the job is a serious one, not only for industry and the insurer, but for legislators as well. The technical difficulties in determining dangerous levels of noise, the necessity of keeping long medical records, the problem of gradual accumulation of hearing loss and normal loss through age, as well as the extent to which industry should be held liable for a loss which may not affect earning capacity—all these have rightly made our legislators proceed with caution. For an indiscriminate law could spell disaster for many heavy industries. Yet some states have already taken the first steps and enacted laws which indicate that industry is on the threshold of a new responsibility for its workers' hearing.

The effects of this impending responsibility have already been much in evidence. More study and research and serious efforts to control the problem of industrial noise have been made in the past ten years than in all that proceeded them. The initial attack in the field has been necessarily concerned with isolating a man or protecting him from the noise created by his machines. We have used acoustical baffles, sound absorbing materials, even ear plugs. But there is good evidence that we are now on the verge of a revolution in machine and tool design in an attempt to arrest noise at the source.

That is, rather than simply attempting to build around ourselves a wall of protection against the artificial environment, we are setting about to adjust and redesign that environment to fit our own normal human limitations. In the light of the new hazards which each decade seems to open up—such as that of atomic radiation—this may seem to be an endless chore. Yet the challenge is there—to recoup man's position of pre-eminence, to redesign his tools and machines to fit his own biological nature, to plan industrial processes and operations that will forestall the misuse and waste of his energies.

The apparent anomaly of our free, capitalistic economy is that it has succeeded in achieving the social good and standard of living it has by the exploitation of individual and personal economic incentives. And one of the most remarkable of its feats has been the turning of what might otherwise have been a mere insurance coverage into a constructive social and economic force.

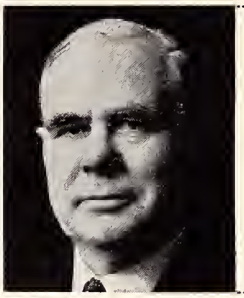
And it is this intimate involvement of the casualty insurance carrier, and in particular the compensation carrier, with the development and economic security of almost every type of business and industrial operation that has given the American world of insurance its unique character, its satisfaction and fascination for the men who compose it.

It would be presumptuous and untrue for me to say here that a career in casualty insurance would satisfy the aims or nature, or even training, of any or every college graduate. Yet, there has rarely been a period in our history when the insurance world has so challenged, or so needed, men with the economic good sense and training, with the social consciousness and comprehension to work with industry and our lawmakers in building and improving from within the firm base of our social insurances.

LLOYD'S

OF LONDON

BY SIR MATTHEW DRYSDALE



Chairman of the Committee of Lloyd's. Sir Matthew, knighted in 1953 by Queen Elizabeth, is noted in this country for his leadership in the reinsurance field and in the non-marine market of Lloyd's. He has been an underwriting member of Lloyd's since 1919, and has been elected Chairman of Lloyd's for four annual terms.

Lloyd's is apt to be something of a mystery to many otherwise well informed on commercial affairs. True it is that Lloyd's is the product of some 270 years of spontaneous evolution, tending to obscure the links between the seventeenth-century coffee-house and the Lloyd's of today. But just as no species ever loses its primary characteristics, which are precisely those which fit it for survival, so the species Lloyd's retains from its coffee-house beginning a feature which has informed its growth at all stages: I mean the unique Lloyd's system of individual underwriting with unlimited liability.

We have no reason to believe that the coffee-house set up by Edward Lloyd in Great Tower Street, London, in 1688 or earlier, was different from other seventeenth-century English coffee-houses except in its proximity to the Pool of London, and in the interest of its proprietor in the mercantile scene. But these two factors rapidly told on its character. Lloyd's customers tended to be men whose business lay with ships and their cargoes, and to further his connection Lloyd began, no doubt in a small way at first, the systematic collection of shipping news. The coffee-house did well, and in 1691 Lloyd moved to better premises in Lombard Street, in the heart of the City.

Outside the fields of fire and life, no such thing as a corporate insurance body existed before 1720, and cover for marine risks was supplied entirely from the private resources of individual merchants. The demand for cover had already created a class of men known as "office-keepers," who may be thought of as the first insurance specialists and forerunners of the modern broker.

What was lacking at this time was a centre where the office-keepers could get their clients' policies fully subscribed without trudging round the City. As Lloyd's Coffee-House became the accepted meeting place of the mercantile community, so the office-keepers could be the more certain of finding there the men who were prepared to "write a line." Thus in its earliest days, the Coffee-House was tending to become an unofficial insurance exchange, a working centre for an informal community of individual marine underwriters. A similar process of specialisation marked the development of Jonathan's Coffee-House into the Stock Exchange, and of the Baltic Coffee-House into the Baltic Exchange.

Meanwhile, Edward Lloyd developed his shipping news service, issuing periodic printed lists of ships' movements, of which the earliest to survive is dated 1701. Lloyd himself died in 1713, but the succeeding masters maintained and extended the service he had built up, the value of which was finally confirmed in 1734 by the regular issue of "Lloyd's List" as a shipping newspaper. Only eight years later, during the wars with Spain and France, we find that the Admiralty were taking the trouble to acquaint the Master of Lloyd's Coffee-House of the impending departure of convoys in the various trades in order that he might "inform the gentlemen concerned."

In spite of its special character, Lloyd's remained a proprietary coffee-house open to all until the late 1760's, when the intrusion of a speculative element into the business transacted at the house drove the more reputable section of its frequenters to establish a New Lloyd's Coffee-House in Pope's Head Alley. Here, with the object of finding permanent premises, the seceders opened a subscription and set up a committee of nine, the first Committee of Lloyd's. Appropriate premises having been secured in the Royal Exchange, the Committee assumed responsibility for the management of the House, making the former joint Masters of the Pope's Head Alley establishment their tenants-at-will. Of the two coffee rooms, the larger ("The Great Room") was reserved for the use of the subscribers, the smaller one remaining open to all. The future of Lloyd's lay with "The Great Room," forerunner of the Underwriting Room of today.

Before very long (1779), the subscribers met and settled the form of the marine policy. This was one of the first formal acts of the new Lloyd's, and although nowadays adapted to meet any contingency by the attachment of provisory and counterprovisory clauses, the basic text of the marine policy remains unchanged.

Constitutional measures were introduced at the new Lloyd's in 1811. One important decision was that a Trust Deed, giving legal sanction to the rules of the house, should be signed by all subscribers. The first Lloyd's Agents were appointed in the same year. I should explain that the function of Lloyd's Agents, which has been little altered since the first appointments, is to furnish Lloyd's with a service of shipping intelligence, and to render services in respect of damage to vessels and their cargoes which might form the subject of claims upon underwriters. Unless specially instructed in particular circumstances, Lloyd's Agents are not the representatives of underwriters; moreover, they are not

concerned in any way in procuring or placing insurance business.

One hundred years after the appointment of the first Committee, Lloyd's acquired by Act of Parliament (1871) the formal constitution it has to-day, that of a corporation. By this Act the objects of Lloyd's were defined as the transaction of marine insurance by its members, and the collection and publication of shipping intelligence. Perhaps I may make clear that two entities, the corporation and its membership, are thus distinguished in law. The Corporation provides the premises and the facilities for underwriting, but has no responsibility under Lloyd's policies, which are issued by the underwriting Members of Lloyd's. Subsequent Acts enlarged the objects of 1871 to include all forms of insurance and all forms of intelligence. Before I enlarge upon the Lloyd's of to-day, I must explain how that came about.

The link between the exclusively marine Lloyd's of the mid-nineteenth century and the virtually open market of to-day is a human one. I say, human, but I am tempted to describe the late Cuthbert Heath's flair for assessing risks and initiating new forms of insurance as superhuman. Whereas I have previously spoken of the process of change at Lloyd's as "evolution," I must speak of Heath's work in the non-marine field as "revolution," and it is true to say that many of his ideas are to-day the common substance of insurance practice throughout the world. Starting in the 1880's with fire, for which there was already a small market existing at Lloyd's, Heath was soon breaking into territory not only new in the Room but new in insurance; he underwrote the first burglary policy, the first all-risks and the first block policy on jewelry, and the first fire policy to include loss of profits.

In the late nineteenth century the Industrial Revolution was already creating demands for unprecedented forms of cover, and the new tradition established at Lloyd's by Heath's open and unprejudiced view of what constituted an insurable risk was ready to come fairly into its own in the twentieth-century world of tele-communications and technology. Those indispensables of modern transport, the motor vehicle and the airplane, were both first insured at Lloyd's. At first conducted as marine "sidelines," non-marine accounts are now responsible for more than half the premium income of the Lloyd's market as a whole.

The term "Lloyd's market" is no mere figure of speech, for the Underwriting Room does in fact constitute a physically localised market. On the other hand to speak of the marine or non-marine market is to use the language of metaphor, for there are at present no physical lines of demarcation. One underwriting box looks very like another, and all carry back to the box seats at which Edward Lloyd's customers drank their coffee. I have already mentioned that it was to secure better premises that Lloyd first moved to Lombard Street in 1691. Accommodation was the problem which brought the first Committee of Lloyd's into being in 1771, and few Committees since have been free of it. Such has been the development of business at Lloyd's that the present Underwriting Room, thought spacious enough when it was opened in 1928, has for long been too small. In Lloyd's new

The Underwriting Room at Lloyd's, where agents representing a syndicate of members specializing in the same class of insurance receive descriptions of risks brokers want insured.

building now approaching completion on the east side of Lime Street, the Underwriting Room, with its Gallery, will have a total area more than twice that of the present Room and its annexes. In this new Room, the marine and non-marine markets will to some degree be spatially defined.

Many a broker will by this means be saved something of a walk, just as the office keeper was saved a trudge round the City by the adoption of the Coffee-House as an underwriting centre. And at Lloyd's we think a great deal about our brokers, who, with their correspondents in this country and abroad, are the channel through which business reaches us from the world at large. It is the broker who, on receiving the often vaguely defined requirements of his clients, sets out the essential details on a slip, which he brings to the underwriter at his box.

The broker's task of making up the sum to be insured is greatly facilitated by the syndicate system. Underwriting members of Lloyd's are grouped into syndicates, many specialising in a particular class of insurance, and each represented in the Room by an Underwriting Agent empowered to underwrite on behalf of all the "Names" in the syndicate. While this practice enables each Underwriting Member to avail himself of the services of an underwriting specialist, it in no way affects the principle of individual unlimited liability, and the Names subscribing a Lloyd's policy bind themselves "each for his own part and not one for another." Thus the underwriter to whom the broker brings the slip will in fact be underwriting on behalf of a syndicate of Names. Unless the sum to be insured is very large, the broker will probably have no difficulty in securing the requisite number of lines within a matter of hours, and a risk cabled to London in the morning may be brought into the Room and covered the same day.

The Lloyd's market is strongly competitive, and unless the risk is of such a routine nature as to be subject to compelling market precedent, the rate of premium is a matter for bargaining between broker and underwriter; it is the broker's part to secure the best terms that he can for his client, and he will not necessarily be satisfied with the first quotation he gets. But in another respect the market is co-operative; where more than one line is necessary to make up the sum to be insured, the rate accepted by the underwriter who writes the first line (known as the leading underwriter) will be accepted by those who follow him. The completed slip binds the underwriters to issue a policy, and it is accepted as sacrosanct until that is done.

At Lloyd's we are proud of our policies, which are denoted by an anchor seal and are protected from imitation by Lloyd's Act. As with much else at Lloyd's, the security they afford has been achieved not by a single effort of organisation but by some two centuries of experience. The structure upon which that security rests is too elaborate for simple description, but of its principal components I should like to name these four: the deposits which every Underwriting Member has to lodge with the Committee; the Premium Trust Fund, in which all premiums are held in trust, and from which only ascertained profits can be released; the annual audit of each Underwriting Member's accounts, designed to ensure that his underwriting assets are at all times sufficient to meet his underwriting liabilities; and the private fortune of each Underwriting Member. Of these, the Premium Trust Fund and the annual audit are compulsory under the Assurance Companies Act of 1909 and 1946, but in fact, both procedures were in being at Lloyd's before 1909.

The feature of the Room which will perhaps most forcibly strike the visitor from the American continent is the entire absence of office machinery. The underwriter is able to banish from his box what I may perhaps call the paraphernalia of business efficiency partly because the fundamental procedure of underwriting is so simple, and partly because the extensive office organisation of the Corporation of Lloyd's provides him with all the services he needs to enable him to confine his box routines to those immediately relevant to the act of underwriting. One of the most important services is that provided by Lloyd's Policy Signing Office, where the policies themselves, first made up in the brokers' offices, are checked against the slips and carefully scrutinised before being signed, sealed and issued. To the marine underwriter, the services provided by Lloyd's shipping publications are indispensable.

The Lloyd's market, evolved as I hope I have made clear on an empirical basis, is the largest and freest in the world, and the Room is a lively even if exacting place. It has a strong community life of its own, not the least feature of which is consciousness of the traditions we have inherited. And the Room has for every man of intelligence and imagination its own lesson, which I think is this: Think for yourself and keep your head; don't be over much depressed by loss or too much elated by success. When things are difficult don't give up. When things look good don't plunge.

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PART III MARKETING STRUCTURES

THE AGENCY SYSTEM I:

THE STOCK AGENT

BY KENNETH ROSS

President of the National Association of Insurance Agents. Mr. Ross started in the insurance business in 1938 with an agency in Arkansas City, Kansas. By 1942, he had his own agency and in 1951 was selected as a member of the NAIA executive committee.

It is well established that the insurance agency can be one of the more profitable and most stable types of business that one can engage in. There is practically no limit to what a smart and aggressive agent can earn. This is more true today than ever before, not because times are good, but because of the increasing new developments in the types of insurance being written to correspond with our ever changing economy and way of life. The experiences and livelihood of an insurance agent are not contingent upon an inflationary economy as are so many other businesses. On the contrary, the insurance agent can earn a satisfactory income no matter what the status of the economy may be; even during trying times such as a recession or depression when adequate insurance protection is more vital than ever.

The role of the insurance agent today is more challenging and demanding than ever before due to the increasing complexity of the forms of contracts designed to keep pace with our evolutionarily complex society. Consequently, the efforts of the agent are likewise more rewarding than ever before. Depending upon the affluence of his clientele, the conscientious and well informed insurance agent today might possibly derive upwards of $15,000 a year from as few as 1,000 accounts. The most amazing feature about this is that an exceptionally industrious agent starting from scratch might possibly build up a similar size clientele in as little as five years. What, then, is an insurance agent and how do you become one?

Generally, an insurance agent, who is licensed by the state in which he transacts his business, is an independent business man holding contracts with a number of fire, surety, and casualty insurance companies, authorizing him to solicit business, sign policies, and collect premiums on their accounts which are consistent with their underwriting practices. The outstanding characteristic of the stock company agent is the independence of action. He may contract with as many companies as he deems necessary and as such, adheres to the principles of what is referred to as "The American Agency System," which is the "production of insurance premiums and the servicing of insurance contracts by insurance agents operating solely on a commission basis on their own account as independent contractors who maintain their own offices separate and apart from any production office maintained by an insurance company."

In practice, the insurance agent sells his contracts of insurance on a term basis. These terms vary from one to five years, depending upon the line of insurance and the feasibility of the extended term. He then services each account throughout the term of the contract from the standpoint of loss control, protection of new hazards occurring during the life of the policy, adding broader coverages as they become necessary and the prompt settlement of any losses which may occur during that time. As compensation for these services, the agent is paid a commission on all premiums paid whether it be at the inception date of the contract or subsequently. It is at the renewal of these term insurance policies that the remuneration of the general insurance agent differs from any other type agent, for with every renewal, the agent receives the same rate of commission as if it were an entirely new line of business. This procedure remains the same with every policy the agent writes.

As between the insurance agent and the companies he represents, the agent owns and controls all of the business that he writes with those particular companies. The agent is not duty-bound to renew any of his customer's expiring policies with any particular company. Due to a well established doctrine known as the ownership of expirations, no stock company may solicit any of its expirations which the agent may fail to renew, has withdrawn, or has written with another company. The independent agent may set his own hours, and establish his own goals. He need fear no undue sales pressure from his companies. Naturally, the harder he works and the more resourcefully he goes about his business, the better he will fare. Few, if any agents have become prosperous without a great deal of hard work, nor can an agent afford to neglect his customers.

As in any other business, the salesman or producer is the one who makes the greatest income over any period of time once he establishes himself. The fact that whatever business an agent develops belongs to him and no one else puts him in a unique and envious category. The insurance agent, as opposed to other producers, can never price himself out of the market. In many industries, a top-flight producer becomes an expensive item for his employer once he has reached a certain income bracket regardless of how much business he may bring in, simply because these same salesmen very often become too satisfied to live off of the commissions derived from old accounts. It is at this point that they can very often outlive their usefulness. This cannot happen in the insurance agency business. Once you have developed a business, no matter

however sizable it may be, it is yours.

Like any other business, the producer starts at a relatively low income level. But, if he has perseverance and ability, his progress is usually very rapid. The neophyte agent starts his career on the basis of salary plus commission or just straight commission. If he should be located in or around a large metropolitan area, very often the young agent will get his start with an established agency by developing accounts that are assigned to him and supplementing this with new business that follows. As he progresses, and after he reaches a certain point, he is frequently placed on an entirely commission basis. The young man who starts at $300 or $350 per month could possibly be earning $500 per month at the end of two or three years, and $10,000 annually within five years. Thus an enterprising young agent who may expect 90 per cent renewal of all his business, together with new business he may write during the year, will find that he has built up, in a reasonable time, a steady and firm backlog of permanent business.

In the smaller towns, while there are opportunities to start with other agents, many young men start off on their own, and though their first years may advance at a somewhat slower rate than their city brethren, they might also be in the $5,000–$6,000 per year category by the third or fourth year, and at that time are only on the threshold of their real earning opportunities.

Pertinent to the income of an insurance salesman is the fact that insurance is far less affected than nearly any other business by fluctuations in the economy. Not only does the product seldom face shortages in its availability, but the market is exceedingly steady due to the fact that our citizens must be protected at all times from the diverse and multitudinous losses against which insurance is their best and often only protection.

A great opportunity offered by the business of insurance, especially the agent, is the opportunity to see young enterprises growing or just starting. The agent is given the opportunity to become associated and grow with them, should he wish to. Naturally, anybody could likely take part in these enterprises, but the main factor on the part of the insurance agent is that he has so many opportunities to see these enterprises which the ordinary person does not have. It is also entirely possible that these growing concerns may well offer the chance to develop sizeable insurance accounts with them.

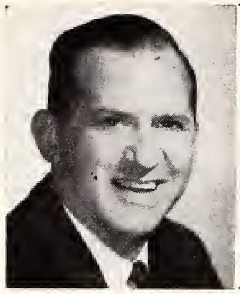
With this vast and bright outlook, you might well ask, "Why don't more college graduates come forth seeking an opportunity to enter this wonderful, ever expanding business with all its attendant opportunities?" For the most part, insurance agencies, which are nearly always small business organizations, have no way of competing with the large business corporations who send teams of experienced personnel men directly to the college campuses in order to recruit top-flight prospects from the graduating classes. The life insurance companies are able to indulge in this recruiting and to a certain extent many of the general insurance companies do the same, but in the case of the general insurance companies, it is for their own staff employees. The agent, on the other hand, in addition to the size of his organization, is independent and has neither the time nor the means to set up a competitive recruiting system.

Stock insurance agents have listed four major prerequisites in the prospective college graduate who would like to enter the production end of general insurance. First, and by far the most important, is a thorough knowledge of the business. Second is personal sales ability, followed by a broad field of contacts, and last, management ability. Many colleges offer comprehensive courses in insurance. Furthermore, insurance is an ever-changing field, and a good insurance salesman must be a student at the beginning and throughout his entire career, if he is to reap his share of the wonderful potential offered by this great and vital industry.

THE AGENCY SYSTEM II:

THE MUTUAL AGENT

BY EARL A. LAMB



President of the National Association of Mutual Insurance Agents. Mr. Lamb, who attended Syracuse University, is also president of the Heffner Agency of New York City. He joined the Agency in 1934 and advanced to the presidency in 1945.

AN INDEPENDENT local insurance agent who represents, primarily or exclusively, mutual property and casualty insurance companies is known in the trade as a mutual agent. Mutual agents share in common the observance of certain underwriting principles and devotion to the advantages that can be offered to mutual policy holders through risk selection, loss prevention, and the return to policyholders of substantial underwriting profits in the form of dividends.

But there are as many different types of agency operations to be found among mutual agents as there are in the agency field as a whole. Important influences on the individual agency will be seen in such factors as whether it is located in a large city or in a small town and whether it emphasizes the personal lines—such as private home and automobile policies—or whether its business is built primarily on large commercial and industrial accounts. As examples—a typical one-man agency in a small town whose volume consists mostly of a large number of relatively small personal accounts needs to be known as a good neighbor and one to whom the community can look for service out of the line of duty, as a man whose first function and responsibility is to help people with their difficulties. On the other hand, an agent in a large metropolitan area, with a variety of business types, might find that most of his direct contacts are with brokers who place insurance with him on behalf of their clients and with whom he divides his commission. In this case, personal contacts on the higher levels where large capacity can be found, unusual underwriting assignments carried out and sharp competitive enterprise brought to bear might be of paramount importance.

Whatever the type of operation, the local agency provides a field of individual venture which can be entered with very modest financial requirements. The small amount of capital needed to acquire and furnish office space for one or perhaps two individuals, plus some working funds to cover the initial period of operation, are sufficient to start a one-man, individually owned agency in business. Many of the nation's large and successful agencies have had extremely modest beginnings. Hard work and long hours are necessary to build a new agency into a good income-producer; but the properly managed agency will tend to gather momentum as it goes along, acquiring additional business on the basis of its growing reputation for service, competence, and integrity.

The personal requirements of success for the local agent are rather greater. The insurance business is a complex one, not widely understood. Because of this and the fact that the agent recommends, sells, and interprets the coverages which are purchased largely on trust by his clients to protect them from financial ruin, the agent has a broad and serious responsibility to the insuring public who support him and his industry. Thus it is true that the first requirements of a successful agent are individual competence and integrity.

The agent needs to be a salesman. He is selling in a highly competitive market a product which frequently is expensive and which has little or no glamor on which to base marketing techniques. It is represented by a printed document which is necessarily technical, complicated, and "dry." It is a contract which, at the time of the sale, will definitely cost the insured a premium, but which, if he has no losses during its term, will pay no proceeds. This, to the average purchaser, is not a tempting product.

On the other hand, the agent who knows his business can take with him into every sales interview the knowledge that his product is not only worth what it costs, but that it is essential to the economic security of his client. He knows, with a conviction which few salesmen can have, that for his client to "buy now," regardless of his other obligations, is the smartest and only thing for him to do.

As a mutual insurance man, the agent has unique opportunities for both his clients and himself. As explained elsewhere in this volume, mutual insurance by definition means that the company belongs to the policyholders. After losses and expenses, taxes, and contributions to surplus are paid, operating profits are returned to the policy holders. The savings in net cost thus effected will average around 20 per cent of premiums, which offers a very nice competitive advantage to those farsighted enough to make use of it. The agent has the additional incentive of knowing that he is offering to his clients the finest of protection at minimum cost, under a plan of operation which is the oldest form of insurance in this country, dating back over 200 years.

The young mutual agent entering the field today faces a bright future. Competition for the insurance dollar is keen. But it is not a case of contesting with other industries and other products, for it is the production and sale of tangible goods that inevitably produce the insurance dollar. And he has the priceless independence of owning his business, free to serve his clients in accordance with his own best judgment and sense of obligation.

THE AGENCY SYSTEM III:

THE FIELD AGENT

BY CYRIL S. HART

President of the Boston-Old Colony Insurance Companies. Mr. Hart started in the insurance business in 1935 with the Employers Group, but came to Boston-Old Colony in 1950 and was elected president in 1955. He was educated at Boston University.

THE FIELD AGENT or, as he is better known in the industry, the special agent, state agent, fieldman, or field representative, fills a most interesting and important place in the marketing of property and casualty insurance. Whatever the title used, the men themselves look upon it as being synonymous with responsibility.

The preponderance of casualty and property insurance written in the United States is merchandised through the American Agency System. This system is made up of independent agents who operate entirely on a private enterprise basis as contract representatives of the companies with whom they place their clients' business. These agents usually represent a number of insurance companies and competition is keen for a place in their offices. It is in this atmosphere of independent merchandising that the necessity for the field agent becomes apparent.

The field agent's prime responsibility is the procuring of agency representation and providing the type of service necessary to satisfy the agents' requirements. The pressure of competition among field agents of various companies for representation in the offices of the better agents necessitates a thorough knowledge of the attitudes, principles, and practices of the competition. In the past, the success of the field agent in securing business from his agents was dependent to a great extent on his personality and ability to establish and maintain a friendly personal relationship with them. This is still true to some extent; however, due primarily to the increased complexity of the property and casualty business, the emphasis has shifted dramatically from personal friendship to the area of real knowledge and understanding of the insurance business. With the advent of multiple line underwriting, the old-style entertaining field agent has vanished from the scene and has been replaced by his modern counterpart who secures business on the basis of his grasp of the business and ability to apply his knowledge for the benefit of the agent.

The majority of field agents are assigned to a territory with definite geographic boundaries. In some cases, this will comprise an entire state; in others, a county or, if warranted, dependent upon the potential for premium volume, a smaller area. There are also in the field specialists who handle only a particular class of business and ordinarily cover much larger territories. These specialists are available to the fieldman upon call in any situation where the problem presented by the agent or the type of risk to be covered is so complex as to require specialized knowledge. Specialty lines, such as accident and health, steam boiler, and fidelity and surety bonds, are in many cases handled by this specialist type of field personnel. The vast majority of field agents, however, are of the general category who handle all of the problems of the particular field to which they are assigned. The field agent's job is one of top responsibility, and continuous study is required to keep abreast of the changes in the many lines which are being written by multiple line companies today. Whereas previously the business was divided generally into fire and casualty sections, such is no longer the case, as companies under their multiple line powers are writing a complete portfolio of business which encompasses fire, inland marine, ocean marine, fidelity and surety, and casualty classifications. The fieldman is not expected to be a specialist in all of these categories, but generally should be able to handle most of the problems as they arise. If he needs additional information, there are available to him sources at his branch or regional office from which to secure the necessary help quickly.

There are three definite requirements for success in the field, and I think they are all equally important and necessary in the make-up of a well-rounded field agent:

First, he must very definitely be a student of human psychology and be able to adjust his sales approach as required to the personality of the individual with whom he is dealing. This is a basic requirement for any salesman. The field agent must have an abundant supply of tact and diplomacy, for he is daily doing business with agents of diverse and distinct personalities whom he must understand in order to cement and improve his company's position in their offices. His personality must inspire confidence, for it is part of the field agent's job to guide the agent in the production of business and in many cases actually accompany him as he solicits insurance from prospective insureds.

The second basic requirement is a thorough knowledge of the insurance business. This is mandatory because the field agent, as the representative of his company, is expected by the agents to define his company's policy in the acceptance of risks and to instruct them and their office forces, if need be, in the intricacies of the coverage provided by the various contracts and the method of properly arriving at the premium. He must also have at his command a knowledge of the rating structures and the regulations of rating organizations having jurisdiction over the coverage. It is the agent's respon-

sibility to collect the premium from the insured, but it is up to the field agent to see that the agent pays his accounts to the company within the time allowed by the agency contract. It is also the responsibility of the field agent to be certain that the service functions of the business, such as engineering, auditing, and claim adjusting, are being carried out in his territory to the satisfaction of the agent and in accordance with the quality of service desired by his company. From this brief outline, it is obvious that the field agent is actually the supervisor of all aspects of his company's activities in a given territory.

The third and equally important requirement of the field agent is willingness to work. The freedom of operation in the field under little direct supervision necessitates his being a self-starter.

It is evident from the requirements of the position that the training period is a most important one. The foundation a man secures before going into the field determines to a great extent his possibilities for success. The college graduate is usually brought into a formalized training program within the company and, in many cases, after a relatively short period of instruction, is sent into the field under the supervision of an older, experienced field agent. As one looks over the ranks of successful fieldmen, however, it becomes apparent that those who do the best job are those who have had a longer period of training in the different facets of the business, rather than those who have been quickly assigned to the field. It is much more desirable from the field agent's standpoint that he have additional training at the home office and branch office level prior to his entry into the field. This background in underwriting and other service functions provides him with the foundation necessary to handle the great variety of problems which arise and thus, on the basis of his own knowledge, to provide his agents with service which would be impossible on the part of those who have not had this further training.

The vast expansion of the industry in the postwar years required the addition of a considerable number of field agents and the beginning of the multiple line era which caused fire companies to enter the casualty business, and vice versa, increased the need for field personnel. Accelerated training programs instituted to satisfy the need resulted in many instances in the appointment of partially-trained field agents. The field agent is the only representative of the company that many agents see to any extent, and it is on the basis of his ability and performance that the agent forms his opinion of the company. The companies, for their part, desire to provide their agents with the ultimate in service and information. I believe, therefore, that a word of caution should benefit those considering a career as a field agent—that they not be impatient to get into the field, but rather spend some time after their training program is completed in filling positions within the company organizations, from which they will secure the necessary background of knowledge to carry out the functions of the field agent properly when finally placed in that postion.

Success is assured the field agent who has properly done his job and established a record of accomplishment. He has the opportunity of building for himself a reputation and a record which is scrutinized regularly, thus continuously bringing before top management his ability and performance. It is well to remember that the hours spent during the day working at one's task are the hours required to do the job, but the hours spent after the day's work, improving and increasing knowledge through study, are the hours which produce promotions. A great number of executives in the business today have come up from the ranks of field agents, and this is easily understood, for the successful field agent has handled in his area much the same types of problems which present themselves to the overall management executive. The progression expected is from field agent to branch manager to an executive capacity as a regional or departmental manager or possibly overall home office management. I do not in any way wish to infer that opportunities are not equally present for those in the underwriting, claim, and service categories, but for the purposes of this article, we have limited ourselves to the future possibilities for field agents.

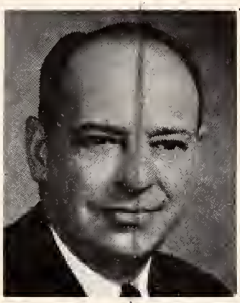
There is a great need in the industry for the young man who decides to make insurance his career. The field agent's operations are challenging to one who has a real desire to move ahead in the insurance business and provide him the opportunity to demonstrate his potentiality in a way that is seldom available in other businesses.

From a personal standpoint, the years which I spent in the field were most profitable and the experience invaluable. Decisions which I am called upon to make are many times based on the broad view of the business and understanding of the problems faced daily by our agents, secured while in the field. Being well aware of the possibilities, I heartily recommend that the college graduate give careful consideration to the opportunity presented.

THE COMPANY APPROACH I:

THE STOCK COMPANY

BY KENNETH E. BLACK



President of the Home Insurance Company. Mr. Black started his insurance career with Liberty Mutual in 1924. After a 13 year employment with the Broderick Corporation, he became associated with Home in 1942. After moving through several other executive posts, he was elected president in 1954.

[ED. NOTE: *The breakdown of the industry into three basic types is an oversimplification employed for reasons of space. The characteristics of the three categories are by no means exclusive of each other.*]

PROPERTY INSURANCE appears to be a complex enterprise. Yet those who master its fundamentals look upon it as being ingeniously simple in concept.

An institution of many aspects, property insurance offers much to many kinds of people. To those who wish to engage in it as a business, it is a means of making a living; to the investor it is a source of a fair return for his investment in the form of dividends; to millions of property owners it is a device they use to protect themselves against the chances of misfortune. Though the interests of the various parties are different, they have so much in common that when each performs well his part he and all the others benefit.

While based on intricate rate structures the business itself is a simple arrangement through which losses are pooled and so distributed that they fall lightly upon many instead of crushingly upon a few. It is a highly competitive endeavor; yet it is recognized as being extremely cooperative in nature, its very essence based on good faith among those who in any manner participate in it. Although manned and administered by a staff of experts and specialists, the business is "produced" principally by independent business men pre-eminent in the art of salesmanship.

CAPITAL STOCK COMPANIES

Reduced to essentials, capital stock insurance companies are enterprises which have, in addition to surplus and reserve funds, a capital fund paid in by stockholders who anticipate a dividend on their investment. These companies charge policyholders a fixed and previously agreed upon rate of premium for the risk carried, thereby making the cost definite and without further liability on the policyholder. This ability to pledge all resources, as well as reserves and deposits over and above those required by law, to the fulfillment of their obligations, has enabled the capital stock industry to win the wholehearted support of the insuring public and emerge as the largest writer of property insurance in America today.

Under the mutual system the policyholders receive the profits, if there are any, but customarily assume a liability or assessment if the premiums collected are not sufficient to pay the losses. Under the stock system, the policyholders pay definite sums to corporations which assume their risk of loss. The policyholders of capital stock companies forego the possible profits if the enterprise has a fortunate experience in order to be relieved of liability if its experience is unfortunate, leaving the chances of a profit or a loss to the stockholders of the corporation.

BACKGROUND OF CAPITAL STOCK INSURANCE

The origins of capital stock insurance in America go back to the latter part of the 18th century. Dissatisfied with the "share the profit, share the loss" school of thought or the individual assumption of risk still flourishing in England, groups of individuals formed corporations in which they held shares to provide insurance to property owners.

The policyholders contributed to the "fund" from which the losses were paid just as they did under other contemporary systems, but the newly-formed corporations agreed that they would pay the losses under their policies without further call upon the policyholders. Thus, to guarantee the pledge that all obligations would be met, the companies established a capital fund. If the premiums were more than sufficient to pay the losses and expenses, the profit was used to strengthen the surplus of the corporations; if it was insufficient, the corporations had to meet the deficit from the funds which their stockholders had contributed.

The first companies wrote fire or marine insurance or both, although a few of them assumed other kinds of risks also. The companies started purely as underwriting institutions, assuming risks for a profit; their investment operations consisted solely in the purchase of securities with the usually small paid-in capital. As they had no experience to guide them, the first companies charged for their indemnity whatever they thought practical, subject to circumstances and competition.

Generally speaking, the successful companies were those which charged amply for the indemnity they offered, distributed earnings or savings frugally, built up surpluses and avoided the acceptance of risks beyond their strength. The failures were those which tried to sell insurance cheap, were too liberal in dividends or accepted too many risks in one area and, in consequence, were wiped out in conflagrations.

RESERVES AND SOUND PRINCIPLES

As it was in the case of most busi-

nesses in America in their early days of growth, the most profound change in the evolution of stock fire insurance arose out of the setting up of standards of solvency. In the beginning companies did not appreciate the need for a sound reserve system. When hard experience brought about by conflagrations and other disasters taught them that they must save money in good years to meet the losses in bad ones, they commenced to set up reserves. In later years, this system became thoroughly established when the states enacted laws requiring the companies to carry as liabilities the unearned portion of the premiums on all policies they had in force, so that they could either cancel all policies and return unearned premiums or have sufficient funds on hand to reinsure their business in another company.

When companies were obliged to set up reserves for all liabilities before they could declare dividends, the assets began to grow much more rapidly, and the interest income from the assets which were invested became an important source of income.

Even a cursory review of the modern insurance scene will show that the oldest and strongest institutions in existence today are those which adhered closely to sound principles. They experimented, but not in a way to endanger their existence; they planned for the future and provided for it; they retained a healthy respect for the traditions of the past but also maintained a spirit of open-mindedness which permitted them to assess and evaluate new thoughts and theories.

SERVICE AND
SOUND OPERATION

As there are standard policies and forms and uniform rate-making principles, competition between capital stock companies is mainly developed around the feature of service, each company vying to offer the best facilities and loss service to the asssured and to the agent.

Today, the success of a capital stock company is best measured by the quality of this service and, of course, by the number of policyholders who, by their premiums, make it possible for agents to earn commissions, employees to earn salaries and stockholders to earn dividends.

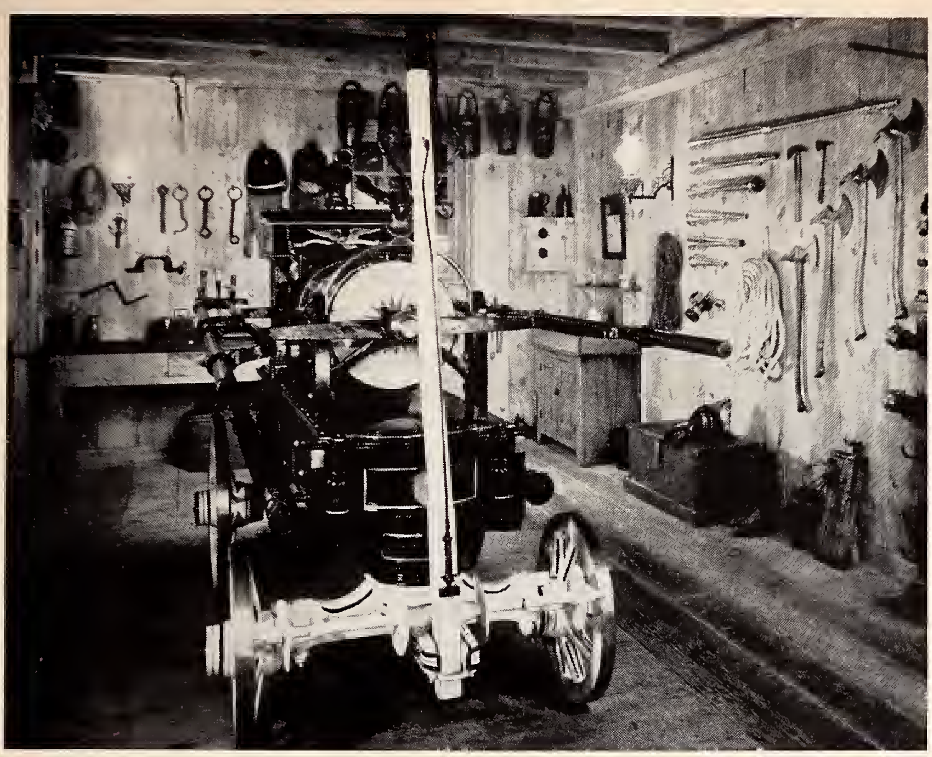
In return, the company safeguards its funds so that all losses will be met, and reviews closely every factor in the cost of operation and distribution so that a reasonable cost to policyholders is maintained. This management policy includes conservative investment practices, the payment of fair compensation to producers to secure good service, sound underwriting and good judgment in the selection of risks with a view to avoiding unnecessary losses.

However, another principle must be observed if equity to all interests is to be retained; that is, the balance between underwriting and investment returns. Investment returns accrue primarily to the benefit of stockholders, but incidentally also to the benefit of policyholders provided a fair share is added to the surplus. Underwriting results form the basis on which rates are re-adjusted from time to time; if results are good, the policyholders gain by reduction in the cost of insurance.

These practices by capital stock companies assure a fair and equitable treatment to all concerned—the insured, the agent, the company and the stockholder. The proper maintenance of this balance guarantees success and continued growth.

THE AGENT

One of the basic reasons for the outstanding success of the capital stock insurance industry in America is its system of distribution. In early times companies would not extend their services to property owners outside of their city. However, to meet the growing need for insurance, it became necessary to appoint local merchants in other cities and towns to "represent"



The property insurance business has been closely allied with fire fighting throughout its history. The Home Insurance Company maintains one of the most complete museums of fire memorabilia in the world, including this replica of a fire house of the early 1800's. The engine is decorated with a painted panel and inlaid leather.

the company in their communities. Today, the independent local agent of the capital stock company brings to the majority of American property owners the most efficient form of insurance protection devised. He combines a deep awareness of the insurance needs of the individual and the community with an informed and intimate understanding of the most effective way to meet these needs.

The deep regard for the capital stock local agent currently held by the insuring public was not an overnight development. It was gained by years of devoted and skilled services, personal counsel and unmatched loss service to people in all walks of life. By demonstrating his high standards in the community, the local agent makes the insuring public aware that there are no shortcuts to insurance protection, that people get what they pay for, and when they secure insurance through a capital stock agent they get the very best protection money can buy.

A CAREER IN PROPERTY INSURANCE

It is obvious from the foregoing that capital stock insurance today is a vast business closely integrated with all aspects of the nation's social and economic life. World commerce and industry could not be sustained without it, nor could the average homeowner enjoy peace of mind without its protective benefits. This is a tremendous responsibility to the industry as well as a challenge to the individual companies to attract and retain capable and industrious young people to assure its continued progress.

Because of the tremendous growth of capital stock insurance there are excellent opportunities in the business for all kinds of talents. A particular need exists at the present time for college graduates in business administration, law, engineering and mathematics. However, consideration for advancement to managerial responsibility is not confined to any major or degree; the criterion for success in the property insurance field is good judgment, industry, initiative and the ability to learn and communicate.

Today, few fields offer as great an opportunity for success as the insurance business, and few industries can provide the same measure of personal security against economic fluctuations.

Along with opportunity and personal security, the business of insurance offers one other real source of satisfaction to those who take a part in it—the gratification derived from safeguarding the interests of others and making human life and property more secure. In itself this great service in the public interest is a constant inspiration to all of us who dedicate ourselves to the perpetuation of the business that gives real security and peace of mind to millions of American property owners.

THE COMPANY APPROACH II:

THE MUTUAL COMPANY

BY W. H. BURHOP

President of the Employers Mutuals of Wausau. Mr. Burhop began his insurance career after his graduation from the University of Wisconsin as a statistician for the Wisconsin Industrial Commission. He joined Employers Mutuals in 1919 and was elected president of the firm in 1952.

It has wisely been said that an organization exists only at the discretion of society. If this statement makes sense to you then the mutual company approach to insurance marketing will also make sense. The two are not only compatible, but inseparable.

A mutual insurance company is actually nothing more than an organization comprised of thousands of equal shareholders, each with one voting share regardless of holdings in the form of premiums paid the company. The company is beholden to each policyholder in equal measure. In fact, the policyholders *are* the mutual company. They elect the directors who in turn elect the company officers. And the policyholders share in the "profits" of the company through dividend savings. If a mutual company should ever place other interests above the interests of its policyholder-members, its days are numbered. Society would surely exercise its discretionary powers and decide that the company performed no useful service—and abolish it.

The history of mutual insurance in America points up strongly how the individual companies were organized to satisfy a specific need. Even the *names* of the companies reflect the need for which they were organized. Lumbermen, hardware dealers, farmers, employers—each had a special need, a cause for dissatisfaction with their treatment under available, often archaic, systems. Today the companies that were most successful in fulfilling the needs of those specialized groups are among the largest in the country and serving many types of groups and individuals. They grew, not because their managements were uncommonly ambitious, but because they had something to offer a larger society than that which they were originally organized to serve. Their market today includes anyone or any group eligible to meet their standards.

The success of mutual companies in marketing their product has always been and shall always be in direct proportion to their success in adhering to the four basic principles of mutual insurance. Historically, the companies that have lived closest by these principles have never found themselves in difficulty either financially or with their policyholders. And their fidelity to the Mutual Idea has led them naturally to expand and serve others besides the small groups whose needs they were originally organized to serve.

These four principles are:

1. Spreading the risk
2. Prevention of loss
3. Curbing the extent of loss
4. Grouping like risk with like risk

It is the close adherence to these principles which *is* the true mutual company approach to marketing.

The principles are not new. The first —*spreading the risk*—purportedly had its origin in ancient China when a group of Chinese merchants met one day in a teahouse to commiserate with a luckless one among them who had lost his entire cargo of rice in the river enroute to market. According to legend, one of the merchants arose and addressed his fellows, saying: "The grass by the river bank is green, thick are the willows and always hungry are the rapids of the river. Let each of us take a portion of his crop and place it in a separate boat. Thus, when one among us is called upon to satisfy the hungry maws of the river, each will lose a little, but none of us will lose his all."

And so it was that the ancient Chinese merchants achieved a fair division of the probability of loss by spreading the risk equally among them—a basic principle of *all* insurance and the very foundation of mutual insurance.

It remained for America's all-time great "idea man," Benjamin Franklin, to carry the mutual philosophy three steps further. Often called the "Father of Mutual Insurance," Franklin listed fire fighting among his wide interests. He not only organized one of the first fire fighting companies in Philadelphia but was keenly interested in the *prevention* of fires as well. Among his numerous writings can be found many words of preventive advice for his Philadelphia neighbors, among them:

> "Inasmuch as an ounce of prevention is worth a pound of cure, I would advise how they suffer living brands' ends of coal to be carried from one room to another and up and down stairs unless in a warming pan enclosed. For a coal might accidentally fall into a crack or a crevice and you might waken at night and finding your house in flames, be forced to leap from a window as I once was to avoid being o'erroasted."

Here in Franklin's homely writings is our earliest evidence of the second principle of mutual insurance, the principle of *prevention of loss*.

But Franklin was not done with the subject. As a philosopher he was well aware of human failings and knew that preventive medicine was not easy for his neighbors to swallow. He knew that fires would continue to break out and that life and property would be lost despite his warnings. So in the organization of his fire fighting companies, Franklin introduced a directive that was to form the basis of the third principle of mutual insurance.

Franklin wrote that every fireman of his fire fighting companies was to

be equipped with "a stout leather bucket—and six linen bags." The purpose of the leather bucket was obvious but the innovation of the linen bags "for transporting to safety items that might contribute to the reduction of the final loss" was the first practical application of the third mutual principle—that of *curbing the extent of loss.*

Benjamin Franklin's third contribution to the basic principles of mutual insurance is found in his organizational structure of the first insurance company in America (and incidentally the only corporation formed prior to the Revolutionary War that is still in existence today), the Philadelphia Contributionship for the Insuring of Houses Against Loss by Fire. One of the underwriting rules of this new firm was that the Philadelphia Contributionship would insure only a certain type house and that there should be no shade trees on the premises. The thought was that trees attracted lightning and thus increased the probability of loss, and also that trees hindered the work of firemen if a fire did occur and thus contributed to the extent of loss.

In retrospect we can see that Franklin was actually putting into practice the philosophy of establishing a likeness between risks. And this similarity of classification is the fourth principle of mutual insurance—the principle of *grouping like risk with like risk.* It is this principle that disallows the careless and irresponsible in an association of careful and responsible policyholders.

Historically, mutual insurance has been the product of revolt—revolt from unfair or discriminatory insurance practices in certain areas or within certain groups. Mutual insurance has been a "from-the-bottom-up" movement, engineered by the policyholders themselves. It has never been something that was placed like a tent over the heads of a large group of policyholders. Rather, it has been the building of a protective tent by the policyholders themselves—with the mutual insurance company being the resulting structure.

In a mutual insurance company—a *true* mutual insurance company—it is the insured who is in the insurance business, not the insurance company. It is a large group of people having a community of interest who group together for the purpose of dividing their probability of loss. They maintain an organization for the orderly collection of premiums, the care and custody of the monies collected, and for the orderly disbursement of funds as losses of members are insured. The mutual insurance company is merely the instrument by which the policyholders' wishes are carried out.

The marketing approach of the true mutual insurance company lies in the carrying out of the policyholders' wishes via the four basic principles of mutual insurance. The true mutual does not merely sell insurance in a mutual company; it *sells mutual insurance.*

The structure of a mutual company, therefore, is comprised of many people engaged in varying assignments. Policyholders must be served by people who not only know their own specialties but who also are aware of how their contributions fit into the whole. It takes good people to make mutual insurance work the way it is intended to work. And in order to attract good people mutual insurance must—and in my opinion *does*—provide satisfying, rewarding careers.

The firemark [see HISTORY, *page 21, for an explanation of firemarks] of the oldest insurance company in America, a mutual company fostered by Benjamin Franklin called the Philadelphia Contributionship for the Insurance of Houses from Loss by Fire. At the founding of the organization, 100 such marks were made by the man who later recast the Liberty Bell.*

THE COMPANY APPROACH III:

AN INDEPENDENT COMPANY

BY THOMAS C. MORRILL

Vice President of State Farm Mutual Automobile Insurance Company. After completing his education at Northwestern University, Mr. Morrill was associated with Alfred M. Best Co., Inc., publishers of standard insurance reference works. Joining State Farm in 1950 as director of research, he was elected vice president in 1952, a position he has held since then.

THE PROPERTY INSURANCE business has a full-blown marketing revolution on its hands.

The revolution began in the twenties in the automobile insurance business. It fed on the opportunities presented by the pricing system of the companies then dominating the field—a system of rates geared to the fact that the automobile was still a luxury purchase, and insuring the vehicle was generally thought of as essential only for the man of means, vulnerable to court judgments.

In this climate a few new enterprises ventured to try the water. Their basic idea was not very novel in the world of business, but it was almost heretical in the world of insurance: It was price competition.

But how would one go about selling low cost automobile insurance? The established agents were securely tied to the companies which sold automobile insurance at identical prices, by private agreement. The only possible answer was to establish an independent distribution system, developed, recruited, and trained to represent the new marketing concept.

Automobile insurance was the natural feeding ground for low cost competition. It was the day of the "tin lizzie," and as the automobile manufacturers spewed out their products by the millions, the motor car became the common property of people at all income levels. The automobile owner was no longer most likely to be the business man who simply asked his agent to add automobile insurance to his other forms of protection. By a hundred to one, he was becoming the wage earner, whose only insurance purchases were modest amounts of life insurance and fire insurance on his home. This new market was not one to attract the established agent. But it was made to order for the new idea.

One other factor must be added. In the last fifteen years, automobile insurance has gradually earned an accepted, almost mandatory status. In short, automobile insurance was to become a rich market.

How well did the independent, low cost idea succeed? "The National Underwriter" for May 17, 1956, ranks the leading automobile insurers for 1955. The first, second and fourth ranking companies were low-cost independents. The third company was a finance company affiliate.

The top ten automobile insurers in 1955 earned $1,187 millions of premiums. Of this total, 53% went to four independents, 12% to the finance company affiliate, and 35% to five agreed-rate stock companies. The leading agreed-rate mutual company ranked eleventh.

The independent companies have attained a dominating position in the automobile insurance business. They have made progress, although less spectacularly, in dwelling fire and liability insurance. Some independents are enjoying reasonable success in other lines. Over all, the picture is one of extraordinary growth.

In 1945, forty independent insurance companies formed the National Association of Independent Insurers, dedicated to the preservation of competition. Eleven years later there were 335 member companies, doing business in 1956 at the rate of $2 billions of premiums a year, or better.

The 1955 premiums (net direct written) of N.A.I.I. companies were $1,997,527,882. Of this $1,520,774,737, or 76%, were automobile premiums. This was about one-third of all the automobile business in the United States. The remainder was divided among the agreed-rate stock and mutual companies, the big finance company insurance affiliates, and those competitive companies so independent that they have not joined the N.A.I.I. ranks.

One aspect of the progress of independent companies begins to emerge as a clear-cut characteristic: So far the great gains have been in the mass markets, serving the insurance needs of the average man and his family. Up to now, progress in serving the needs of business and industry has been modest. What the future will hold in this area, once the mass market needs are met, no one can now predict, but clearly the independent companies will be working from strong, secure bases, backed by great aggregate underwriting capacity.

Where this article attempts to present the independent viewpoint on property insurance marketing, other writers deal here with the marketing operations of stock and mutual companies. The words "stock" or "mutual" actually refer only to the form of corporate organization; whatever the marketing set-up, most companies are either mutual or stock in form.

To state the field which this article attempts to represent, the independent company is defined as one which believes in, practices and supports competition on price, coverage, service and methods of distribution.

[ED. NOTE: Many companies which the author refers to as "independents" are also commonly known as "direct writers." There are companies called "independents" in insurance parlance that Mr. Morrill would not include in his category.]

There are many pressures which have led a large part of the property insurance companies over the years to cooperate in rate-making and to agree among themselves as to uniform prices to be charged for uniform insurance coverages.

One of these pressures is the law of large numbers. By pooling premium and loss data, the risk carriers gain greater confidence in the adequacy of rates charged. Some risks—fire insurance on large plants or buildings, for example—are of such great size that they must be shared among a number of companies. That each piece of such a risk should have the same coverage and pay the same price has been a persuasive point of view.

So it is true that—in contrast to other forms of business, where price-fixing is illegal *per se* under the Sherman Act—a large part of the business of insurance has long agreed on rates. Uniform rates set by private rating bureaus govern almost all of the fire insurance, workmen's compensation, general liability, and fidelity and surety business, and a large part of the automobile business.

Price competition, where it exists, takes different forms. There are agreed-rate using companies, principally mutuals, which reduce the cost of insurance by dividends to policyholders paid out of savings at the end of the policy term. Other companies emloy "deviations"—uniform percentage reductions in the agreed rates, representing advance savings for policyholders. These two methods are both tied to the agreed rate as a starting point.

The method of price competition that has helped the large independent companies gain their dominant position in automobile insurance, is that of independent rate-making. These companies devise their own rates, based on their own cost of doing business, so as to cover their losses and expenses and provide a margin for profit or contingencies.

To one who looks at insurance marketing from the independent side of the fence, it seems that the independent rate maker has all the advantages in the pricing arena. If our care in selecting the type of drivers we will insure is above the average (and it has been), we will have lower loss costs. If through internal efficiency or a more advantageous distribution system we have lower expense costs (and we have had), the end result will be lower rates.

The role of competition as to coverage is much more subtle. All policies covering like hazards tend to be about the same. Naturally, those companies which bind themselves to agreed rates also enter into compacts as to forms of coverage; a price must relate to the product it purchases.

The hazy understanding that most people have of the basic insurance coverages probably means that fringe differences in policy provisions weigh but lightly in the scales of competition. But the hopeful search of one company for a wedge of advantage, and the protective reactions of its competitors, have worked together in the public interest toward a steady improvement of the products sold.

And what of competition on service? Well, service is a function of the method of distribution. The marketing operations of the different types of companies are carried on through unlike systems of representation and distribution, and each of them has its own approach to the service question.

The agreed-rate stock company, for example, obtains its business through a marketing process it calls the "American Agency System." This system of insurance distribution still leads in total volume of premium dollars produced. It is committed to high standards of service and professional competence. But it has proved vulnerable in competition for the personal insurance market.

Because the independent companies had to create their own marketing organizations, they vary greatly in concept and structure. But because each of the major organizations represents a first-class marketing success, their selling methods are an important part of the story.

Automobile insurance, as recorded above, is the great source of most independent company premiums. My own company—State Farm Mutual Automobile Insurance Company—is the leader of the industry in number of cars insured and earned premiums. It can serve as a prime example of the marketing revolution, for it has been built, starting from scratch in 1922, to the world leader twenty years later, solely by the application of energy to an out-of-the-ordinary marketing plan.

That a retired farmer in Bloomington, Illinois, could initiate a marketing concept that would overtake hundreds of giant, well-established competitors is a near-miracle of the insurance world. That a new marketing plan could meet with such success in any field seems worth the attention of students of business in general.

In structure that plan involved, first, an acquisition cost loaded entirely into the initial sale, met by a membership fee, separate from and in addition to the insurance premium. This membership fee is paid once and once only, when a coverage is first taken out. It is never paid again, whether or not the coverage is transferred to a new car, or lapses and is later reinstated.

As continuing remuneration, agents received a reasonable service compensation, for which they contract to render claim assistance or other service to any State Farm Mutual policyholder who may call upon him for help. But the agent never again receives a selling commission on the original coverages.

The membership fee plan has many merits, but two are obvious: It provides a separate source of income to meet agents' commissions, and removes the need for any provision (expense "loading") in the premium itself for agents' commissions. Thus, the company starts out with a built-in price advantage over agreed-rate competition.

The membership fee plan, pioneered by State Farm Mutual, is in use by the first, fourth and eighth ranking auto insurance companies, and by many other smaller carriers operating in one or a few states. It has been an unvaryingly successful plan wherever applied.

The continuous policy has these ad-
Farm Mutual's marketing operation is the continuous policy, renewed by the payment of premiums billed from and remitted to company offices.

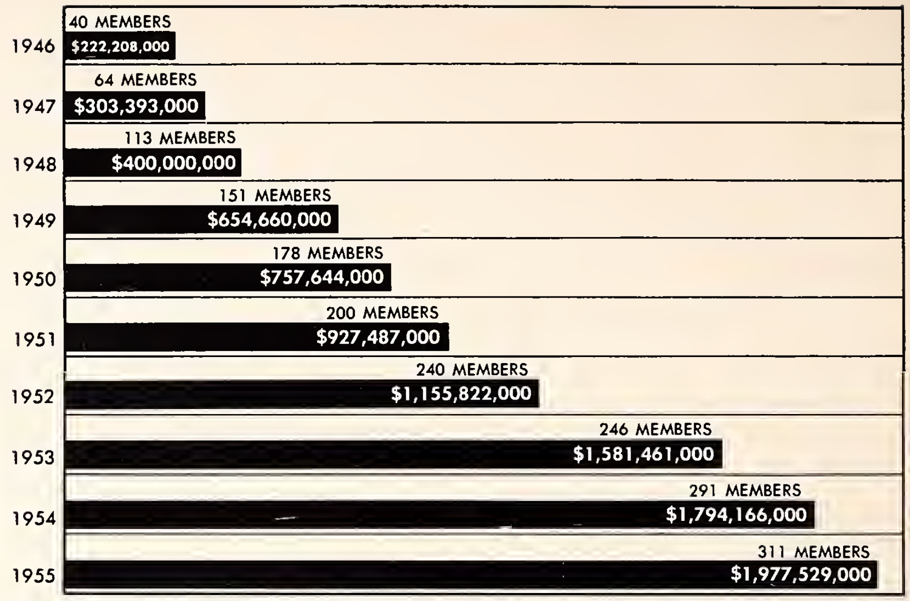
The continuous policy has these advantages: The preparation of the policy, the computing, preparing, and collecting of premium notices can all be handled by the company. This saves time and clerical costs for the agent, frees him for productive sales and service activities, and permits the utilization of the most efficient office machines in mass policywriting and billing operations—including the new electronic marvels.

Third is the semi-annual premium. This early budget-easing device has had strong popular response. Its main internal value today is that it converts all operations essentially to a basis of half-years. This means much more responsive accounting, earlier knowledge of loss and expense trends, and the ability to put in full effect within a six-month cycle any desired rate structure change—half the time needed by annual-term competitors.

Fourth is exclusive representation. The State Farm agent represents only the State Farm companies, owes his allegiance to all State Farm policyholders. His personal success is tied to the satisfaction quotient of the State Farm company policyholder relationship. Since automobiles are made to travel, and the auto policyholder needs service wherever the accident may happen, the value of country-wide exclusive representation is apparent.

A final structural quality of State Farm Mutual's marketing plan is also a by-product of exclusive representation: Selective underwriting. In short, State Farm Mutual tries to insure the average careful driver (the vast majority of all drivers) and tries not to insure the reckless, irresponsible minority who have far more than their share of all accidents.

GROWTH OF N.A.I.I.



Because agents are tied solely to State Farm, they can be schooled and guided in State Farm's underwriting requirements. Because all records are maintained in company offices, a close watch can be kept on the individual risk. Because the local price advantage of the agent turns in part on his own underwriting record, he has no interest in persuading the company to take on an undesirable risk, and no leverage if he made the attempt. This marketing structure is staffed with an 8,000-man agency force.

The ranks of independent insurers include companies of many diverse operating characteristics. Each of the great independent companies has some or all of these fundamentals in its marketing plan. Not all make their own rates. In several areas, small to medium sized companies have joined together in their own rating bureaus, which make rates for the members. This pattern, despite the rate agreement achieved, is a form of price competition, for at least the rates differ from those of the giant bureaus, usually on the low side, and for many of the local bureau members the rates are merely a starting point to which they apply deviations.

Some smaller independents have not attempted to create their own distribution system, but make contracts with established agencies. Sometimes they become the "under-the-counter" low cost product that the agent uses to meet price competition on his agreed-rate companies.

But by whatever plan the individual company makes its way in the market place, the net result is competition—on price, coverage, service and method of distribution.

The first independent, competitive rate filing in the history of New York state was approved for Allstate Insurance Company, Chicago, by the New York Insurance Department in November, 1948, during the tour of duty of Superintendent of Insurance Robert E. Dineen. Forty-eight hours after the news of the approval hit the newspapers, Mr. Dineen was scheduled to address a meeting of the New York State Association of Insurance Agents. The story has been told before, but it is worth re-telling.

The department's action had confronted these agents with their first price competition on automobile insurance. As the speaker's table group was assembling to go into the banquet room, the chairman drew the superintendent to one side, and said: "Mr. Dineen, I don't like to tell you this, but you are going to face a hostile audience."

The idea of a hostile audience put no cold chill on the Superintendent, who had had fourteen years of experience as a trial lawyer. When it came time for him to make the address of the evening, he by-passed the lectern, walked to the front of the platform, held up one hand and said: "Before I begin I want to ask you a question: How many of you believe in the American system of private, competitive enterprise? Put up your hands!"

Every hand in the room went up.

Mr. Dineen's point was a simple one: We either believe in the competitive system or we do not. We can't be for it for the other fellow and against it when the competition is pinching us.

Competition is the American way.

THE INSURANCE BROKER

BY JOHN HOLBROOK

Partner of Marsh & McLennan. Mr. Holbrook has been with Marsh & McLennan since 1931. He was educated at St. Paul's School and Yale, and is a life member of the Insurance Society of New York. Mr. Holbrook is also vice president of the Transatlantic Reinsurance Company.

THE BROKER, or factor, has been an important part of business history since its earliest recorded beginnings. Business men have learned that there are certain aspects of their affairs for which they do not have the time or the necessary technical knowledge and experience and which can be handled better and more economically on their behalf by specialists who have made a career in these various fields. Thus, in the field of insurance, we have the insurance broker.

First of all, it is desirable to clarify the difference, as it applies to insurance, between the agent and the broker, since these terms are erroneously considered by most people to be synonymous. An agent is the licensed representative of the insurance companies. His function is to sell the policies and provide essential services of the company or companies which he represents. A broker represents no particular companies. He represents his clients. His function is to *buy* the broadest available policies at the lowest possible rates, consistent with sound protection.

The only product a broker has to *sell* to his client is confidence in his ability to apply imagination and energy and to provide intelligent and faithful service in the administration of his insurance affairs. I am sure that it has been written elsewhere in this magazine that, to a greater extent than almost any other business or profession, insurance transactions require a deep reliance on good faith. In order to hold the confidence which a successful broker must have from his client and from the underwriters with whom he deals, he must engender in both a firm belief in his technical ability and his integrity.

The scope of insurance brokerage ranges from the individual broker, or one-man office, to the large national and international insurance brokerage firms, which assemble hundreds of specialists in all aspects of the business and maintain offices and facilities for rendering a complete insurance brokerage service in the major cities of this country and other countries throughout the world. For purposes of this article we will consider only the completely staffed larger firms, as an individual who selects the brokerage field would normally require several years of training and experience in such a firm before he would be qualified to start his own business. In these days of greater complexity, keener competition, and a more professional level of specialization, the way is difficult for an individual broker unless he possesses unusual ability and versatility.

There is never a time when a broker can sit back, rub his hands with pride and pleasure over a job well done and reap the fruits of his commissions. No contract is safe from well armed attacks by his competitors so that the placing of a contract is only the beginning of the constantly alert attention and service which the client expects throughout the term of the insurance. He not only expects it; he is entitled to it. The broker who does not provide it will soon find that his competitors—either other brokers or the direct writing companies—are making serious inroads on his business.

The fully staffed office of a brokerage firm consists of senior and junior specialists in all the fields of general insurance which may be divided into the broad categories of fire, casualty, and marine. In each of these the complete office requires qualified men in placing, underwriting, and loss adjustment.

In a separate category are the important fields of life insurance and pensions, divisions of the business which have grown tremendously in the last decade because of the increasing emphasis on social benefits for employees. The larger firms not only provide studies and effect the placing of group insurance in life, accident and sickness, and medical plans, but also act as consultants in the large and complex field of pensions, whether arranged through the purchase of insurance or through trusteed funding.

The coming of multiple line underwriting has presented a new outlet for the ingenuity and versatility of the broker. Men who have specialized in fire or marine insurance now must verse themselves in both forms of insurance to provide for their insureds the broadest available protection at a sound, competitive price.

Certain of the larger brokerage firms which handle a substantial volume of hull and cargo insurance maintain general average adjusting departments, to provide a service for their clients in the historic field of losses to ships and cargo which involve a general average. This is a subject with which most people outside the maritime trade are not too familiar, yet its history goes back to the time of the Rhodians. It is an accepted principle of maritime law which springs from the process of affreightment and is applicable to all those parties who have joined in a sea adventure and who may benefit from its successful conclusion or be prejudiced by some danger common to all. The adjustment of general average is an extremely complicated and interesting subject. It requires personnel of

long experience and is properly classified as a profession in itself, as it takes many years of study and training to achieve the coveted and respected designation of general average adjuster.

One of the attractive features of a career in insurance brokerage is the amazing variety of the day to day problems. A short time ago there was the challenge of arranging coverage for a "Texas Tower," a revolutionary new design for an offshore platform to house the men and radar equipment for the air force's aircraft warning service. It was necessary to study the risks to which the platform would be exposed during construction ashore, while being towed to its permanent site, and most important of all, while being installed and anchored approximately 100 miles off Cape Cod in seas which rose at times to forty feet. It was the broker's assignment to consider the perils to which the men and equipment would be exposed in each of its stages, to consult with the assured and the insurance companies on all aspects of safety and accident prevention and then to negotiate with the underwriters for the various forms of insurance required to protect the contractor until the installation was turned over to the Air Force. Since there was no precedent as a guide, this was a definite test of a broker's skill and imagination.

One of the most interesting and important responsibilities of the reliable broker is to assist his client in the presentation and collection of his claims.

A little over a year ago a plan of group insurance was worked out for a large cooperative association of coffee growers in Puerto Rico to protect the crops of more than a thousand members from damage by windstorm. Just a short time ago Hurricane Betsy hit with its greatest force diagonally through the principal coffee growing area of the island. Less than forty-eight hours later the broker had an experienced loss man in Ponce to set up an organization and procedures to assess the damage to hundreds of plantations and arrange for the payment of their claims as rapidly as possible. Without this insurance the economic effect of the storm on the individual growers and on the banks who had advanced money on the crops would become extremely serious.

Often losses are complicated by unusual circumstances. Being literally in the middle between the insurer and the insured the broker must exercise skill and tact to negotiate a settlement that is satisfactory to both parties. He must interpret for each the special problems of the other's business. The insured is often a comparative layman in insurance while the insurance company representative is frequently a layman in the insured's business. The broker cannot afford to be a layman in either.

Thus, without dealing in too great detail with the functions of an insurance broker, I have tried to convey the many ramifications of this intriguing and highly competitive phase of the industry. There is a position to suit the interest, temperament and particular *forte* of any individual who is willing and anxious to work hard and who enjoys the daily opportunity to meet new people and deal with new situations.

Too many years ago, just before graduation from college, I had an opportunity through a chain of happy coincidences to discuss the plans for my future with the most prominent insurance man of his day. On hearing of my intention to accept an offer from a trust company he remarked, "Why do you want to deal with the affairs of people six feet under the ground? Why not try a 'live' business?" This is not a reflection on the trust business as we know it today; I merely cite this personal anecdote to set forth my theme that the insurance business is very much a live one and the role of the insurance broker can be the most lively.

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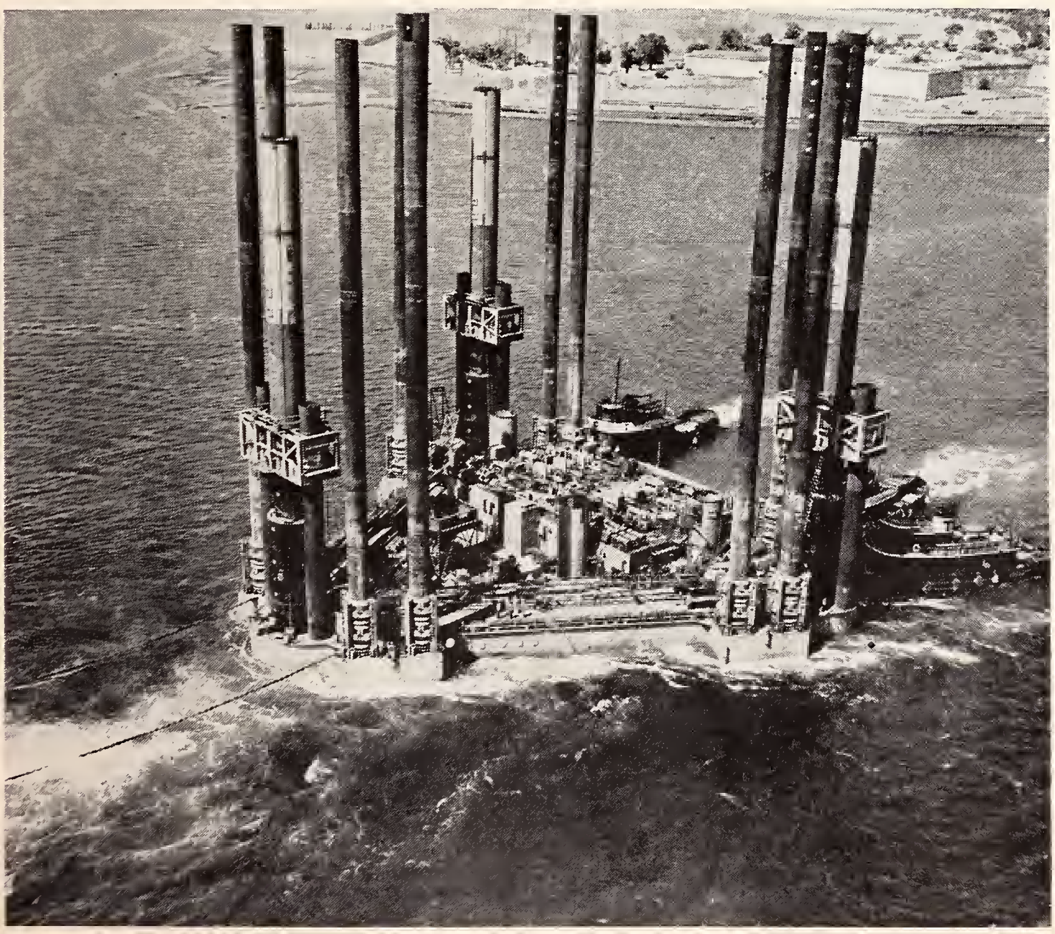
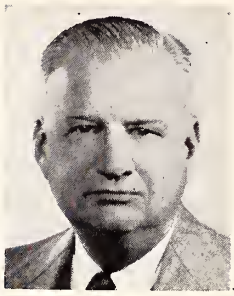


A "Texas Tower" being towed to its permanent site in the Atlantic Ocean 100 miles off the coast of Cape Cod. To establish coverage for all the variety of risks that arise in such an unusual operation, as well as to prevent loss and injury to the property and people involved is a challenge to the broker.

ADVERTISING

AND SALES PROMOTION

BY CLINTON L. ALLEN



President of the Aetna Insurance Group. In 1921, Mr. Allen joined Aetna as a special agent in Michigan He advanced steadily and in 1946 was made manager of the western department. Mr. Allen came to the home office in 1949 as executive vice president, and the following year was made president.

A TOTAL of 10.4 billion dollars in premiums was paid by the American public during 1955 for property and liability insurance. Much of this total was produced by agents and brokers who have an independent status similar to other businessmen operating their own establishments. The tremendous volume of business developed through this system of distribution is a great tribute to the general high quality of their personal salesmanship through a client-producer relationship. The word "personal" is used advisedly because patterning an insurance program or even a single policy to the particular needs of a home owner or business concern requires not only technical know-how on the part of the producer but also confidence on the part of insured in the producer's ability to serve him well at the time of sale and throughout the period that the insurance is in force.

Much of insurance advertising and sales promotion is logically directed at accelerating the sales process through this type of sales organization. Seldom does advertising, by itself, make an insurance sale, but when co-ordinated with the personal sales efforts of the individual producer, it contributes substantially to the total result. It is generally aimed at improving the public's acceptance of insurance as an economic necessity and at directly assisting the producer in presenting his recommendations to his prospects and clients.

The insurance industry employs about every form of advertising. The more common advertising media are national magazines, trade journals, radio, television, newspapers, descriptive folders and a wide variety of novelties. General broad-scale advertising is undertaken by the companies individually and through their trade associations. Agents and brokers advertise locally, and while some of theirs may be general, a major part is specific, often in the form of letters and other means of direct-mail advertising to individual prospects and clients.

One of the principal objectives of company advertising is to increase public recognition of the company's name and acquaint the public with its facilities for serving its insureds and agents. The messages conveyed in magazines and other media range from financial strength and stability, the convenience and extent of claim service facilities, accident and loss prevention activities, the qualification of its agents and the services that they are in a position to render to general information about individual forms of insurance and situations to which they apply. Naturally the amount of national advertising by individual companies varies greatly depending generally on the extent of the company's operations and its over-all sales promotion program.

More common than national advertising is company-prepared advertising in the form of folders and leaflets for distribution by agents and brokers to their prospective customers. This material describes the coverage afforded by individual policies and, when mailed to selected prospects and clients with appropriate letters, paves the way for a call in person or by telephone about the particular form of coverage. These sales aids are often developed for that particular purpose. In only a very small percentage of cases can sales be traced directly to the distribution of this material. However, it generally accomplishes the purposes for which it is designed when its distribution is carefully coordinated with the agent's production procedures.

Although many insurance agents prepare their own advertisements or secure locally the assistance of advertising agencies in preparing them, they frequently consult their companies about ideas for publicizing their agencies and the production of business. This service may range from planning a year's advertising program to more specific things such as the preparation of a series of newspaper advertisements or radio scripts, to designing window displays or a booth at a local home appliance exhibition in which the agent will participate. Agency advertising should reflect the personality of the agency. In addition to the insurance information conveyed, a repetition of the agency name, its trade mark, and its office location, tends to improve public identification of the agency with insurance and widen recognition of its services.

Stimulating sales activity is another term for sales promotion. An insurance sales organization, like that of any other business, requires the constant stimulation of new ideas and improvement of established methods in order for it to be a vital, energetic force in a highly competitive field.

The natural focal point of sales promotion activities by companies is the agent or broker who is the person with the direct contact with the insurance buyer. One of the most effective lines of communication between the company and the producer is the fieldman, variously known as field manager, state agent, special agent, and field representative. Since that is true, many of the company's sales promotion plans are presented to its own field organization which, in turn, passes them on to individual agents, usually in an informal manner, in the course of their regular calls throughout the territories. Agents have confidence in well-qualified fieldmen who constantly offer practical

suggestions for the development of business. This activity may go so far as fitting the sales program to the agent's methods of operation and launching it under the fieldman's guidance. The communication of sales ideas and plans is transmitted in both directions—company to agents and agents to company. Many effective ones are developed in the territories by agents and fieldmen and passed on to headquarters for dissemination when applicable to other territories.

Fieldmen responsible for the development of business in their respective territories are informed of production plans, methods, and goals adopted by their company through conferences supplemented by bulletins and letters at more or less regular intervals. Different conditions existing in various territories call for modifications of general plans. Although sales programs may be general in some respects, the major attention and planning are usually directed at promoting specific forms of insurance which a company wishes to emphasize or that may be a relatively new development.

A rapidly growing trend in the insurance business is the development of so-called "package" policies. The promotion of these single policies has resulted in more carefully planned programs and more aggressive activities than usual, but such a promotional program cannot be launched and then forgotten. Constant revisions and improvements are needed to maintain its pace.

Many insurance companies have advertising departments whose general functions are the preparation and distribution of various kinds of advertising material, advice to agents seeking assistance on their advertising problems, the release to newspapers and insurance journals of news stories about the company and its key personnel. In some instances, the department may be largely responsible for sales promotion activities. If the company publishes a house organ for the benefit of its agents, the magazine is edited by the advertising department.

The number of employees will vary according to the volume of advertising material prepared and the extent to which the services of advertising agencies are utilized. Normally, one would find copywriters, advertising layout men, artists and editors or employees engaged in two or more of those duties.

Probably the best academic training for the advertising field is to major in English or journalism, and some have entered insurance advertising direct from college, but more often than not they have acquired intermediate experience in publishing, newspaper reporting, an advertising agency, or sales promotional work.

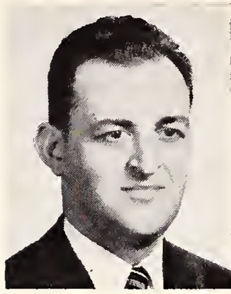
Sales promotion cannot be so easily identified by a department. In some companies, a separate department may coordinate all sales promotion activities; in others, the advertising department performs that function; and in still others, sales promotion and supervision are decentralized by territorial areas. There is no one path that leads to sales promotion work, but probably the majority who have advanced to positions of responsibility started in the insurance business as special agents whose duties are mainly of a sales promotional nature. Those who make outstanding records in such a position, thereby demonstrating an aptitude and special ability for sales work and, in addition, have a capacity for creative thinking and ability to direct others, logically progress in the sales promotion field. The opportunities for college-trained men in this area are numerous, particularly in field offices which supervise a state or a number of states.

* * *

MARKET

RESEARCH

BY VICTOR GERDES



Secretary of the Association of Casualty and Surety Companies. Dr. Gerdes holds degrees from Texas Technological College and the University of Wisconsin. The author of many articles and papers, he has taught insurance, law, and economics at the Universities of Wisconsin, Georgia, and Beloit.

In keeping pace with, and at times running ahead of, the nation's economic growth, the multi-billion dollar property and casualty insurance industry has extended activities into new areas of risk assumption and into new geographical territories until now sales volume and assets have been twice doubled since prewar days.

Today nearly all persons and businesses are protected in varying degrees against the potential consequences that emerge from the realization of a multitude of types of hazards. Companies have responded to and often anticipated the needs of a changing people and its economy. Individual insurance firms have improved and refined past coverages and designed new ones to better serve consumers at the policyholder level. At the same time there has been a continuation of research efforts seeking means to control and reduce home and field operating costs so as to keep the price of the insurance product at a minimum consistent with service required by policyholders.

Research is fundamental in any industry that embodies the inherent structural complexities and capacities for growth that are found in property and casualty insurance. Research elements have long been integral parts of the underwriting, statistical, systems, methods, procedures, budget, investment analysis, personnel, sales promotion, and other functions of the operation of every major company. Research is also basic to studies of new contract needs, provisions and coverages, proposed advertising programs, methods of distribution, introduction of improved major home office processing changes such as those associated with the introduction of electronic data processing, as well as the entire area embracing the consumer, his wants, requirements, changing character and motivation.

Between 1940 and 1950 the population of the United States increased some nineteen million persons to almost 151 million persons. A recent estimate places the US population at approximately 167 million. This figure is expected to reach between 180 million and 190 million by 1965, approximately 200 million by 1975. Americans are a mobile people in response to market opportunities. Today there is considerable movement from one area to another, but very likely lower than during the wartime years, 1940–1946, when about one out of six persons, excluding military, moved from his county of residence.

A shifting and moving population, increasing its numbers by one-third in twenty-five years, shatters the existing structural composition, location, and size of the market areas of the nation. Per capita disposable income has more than doubled since the beginning of the war and increased from \$1126 in 1946 to more than \$1600 today and should reach or exceed \$2000 by 1965 and increase still further to at least \$2700 by 1975. In appraising market potentiality and composition, attention must be given to the changing trends in size, character, income structure, age, occupation, family size and other factors in any given market area. It is important for the insurance seller to know the trends in income of persons in the area he serves. Knowledge and appraisal of the significance of these trends, especially in addition to the effect of other existing and changing local factors, is significant in insurance marketing.

The knowledge that our economy is a growing one, and that the insurance industry is, therefore, facing an increasing market, is a necessary but not sufficient tool which the market researcher must possess. An ever-changing economy introduces new problems and potentials into all of the numerous property and casualty coverages. Factors which affect the sales potential of each specific insurance line must be studied if insurance market research is to fulfill its responsibility. Construction figures and highway building obviously are related to surety bonding, just as changes in automobile registrations, population growth, and income affect automobile insurance. Companies today are required to analyze such factors closely since maximum sales do not result from concentrating sales efforts in a declining market area while being understaffed in an area with a high and more realizable potential.

Much of the material and economic well-being of America is due to the advances in technology made over the years. The availability of risk-assuming carriers has enabled many new processes and innovations to be instituted throughout American industry. Industrial firms are naturally reluctant to proceed along risk-filled and uncharted new paths when insurance protection is not forthcoming. This is especially true in a period of rapid technological advances in nuclear and fissionable materials, jet propulsion, and electronics. Provision of adequate and economical insurance protection against the hazards attendant to the use of fissionable materials has created a multitude of problems of a scope that some thought was too formidable a challenge for the private insurance industry to meet and overcome. However,

the industry is meeting the challenge through the marshalling of assets as well as joint research for the collection of data. And as the demands for this new protection develop, so does the need for market research.

The insurance product—the policies—tends toward standardization after a period of time. Product research induces changes and innovations which, when effected and validly accepted, soon are adopted by other firms. Prices or rates are regulated. And with substantially standardized price and product, success in marketing depends upon research into consumer preference as to service in policy content, period, method of payment and similar areas.

New inventions and applications of complicated equipment, such as electronic data processing machines, change the nature of the performance and methods and procedures followed within property and casualty insurance companies, with a consequent necessity for a reappraisal of the manner in which existing functions are performed and the effect upon changes in the distribution practices of the company. Evidence indicates more administrative details of selling may in the future be accomplished in the home office leaving the agency and broker more time for production and tailor-made individual policyholder service.

Permissive state regulation has inspired internal company group reorganization and merger so as to solidify the bases upon which insurance coverage and distribution may thereby reach more fully the needs of greater numbers of people.

During a period of growing insurance coverage, not all companies keep pace with the overall growth rate. Some naturally may feel that an optimum size or rate of growth is being achieved, such size or rate being less than the national share average. Others, though, are consciously aware of the necessity of maintaining or improving sales volume. And with such becoming the case, the future course of market research is affected. Influential industry leaders stress more than ever before the increase in significance of the role of the market researcher today. Evidence is shown through the frequent public announcements by these industry leaders as well as the less publicized but more important individual and industry-wide studies in progress. Market researchers trained in applying a scientific approach to general market analysis will in the future play a significant role in the further development of the property-casualty insurance institution as an integral part of the national economy. There does portend an insurance research boom ahead.

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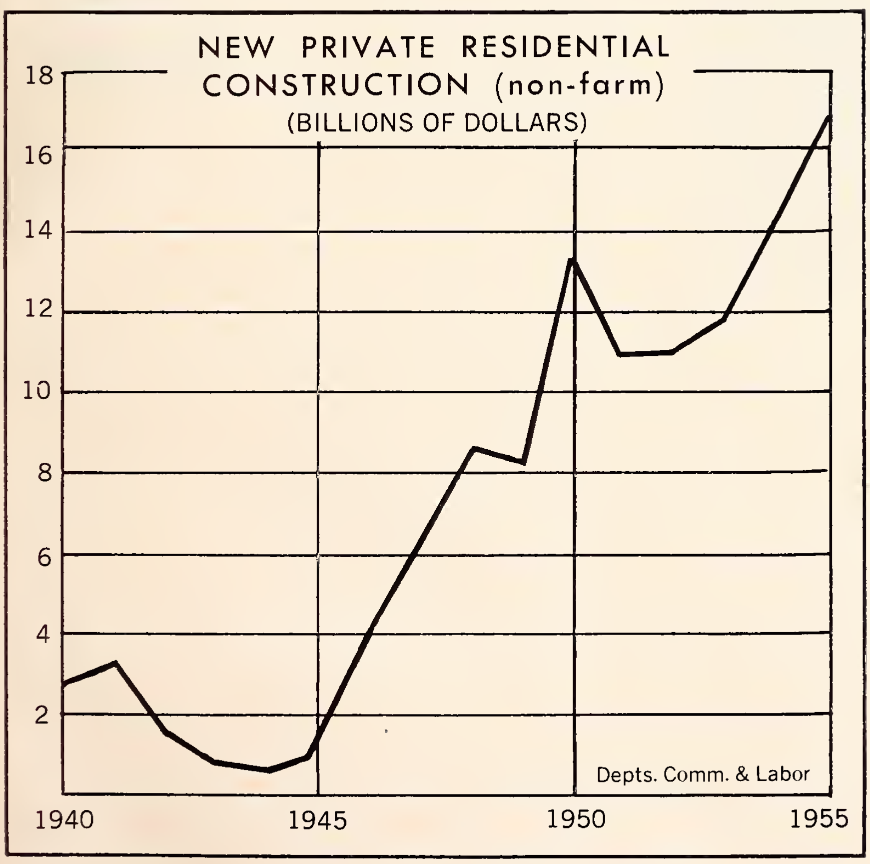

All influences, including factors such as residential construction, must be studied in determining the insurance market.


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N° 978

PART IV OPERATIONS OF THE COMPANY

THE UNDERWRITING SECTION

BY EDWARD W. BROUDER

Director of Training of the Hartford Accident and Indemnity Company. Mr. Brouder graduated from Tufts and has studied insurance at the University of Connecticut, where he presently teaches insurance. He is also secretary of the Insurance Company Education Directors Society and a member of the American Association of University Teachers of Insurance.

To PEOPLE in the insurance business, the term "underwriting" carries a very precise connotation, but to people in other businesses the term may have a different meaning.

An outsider to the insurance business won't find that the usual method of establishing the meaning of a word will help him much with reference to "underwriting," since the dictionary definition contents itself with stating: "to execute and deliver a policy of insurance on specified property" and "to do the act or acts of an underwriter." This statement requires an examination of the word "underwriter," which discloses that an underwriter is "a body corporate or a natural person that makes insurance a business pursuit." These definitions have their foundation on the 17th century practice of men participating in loss sharing agreements on marine ventures through the association in London known as "Lloyd's-London." Those who agreed to share in a particular arrangement signed their names at the bottom of the "policy" and came to be known as "underwriters." Today, most insurance risks are assumed by companies rather than by individuals, but by reason of the origin of the term, we still find the word "underwriter" used in designating the company which has become the "carrier" of the risk.

To insurance people today the function of underwriting is usually conceived as concerning itself with the selection of risks and the basis on which acceptable risks will be insured. There has been ample precedence established over many years for wide variation in what the functions of underwriting might be, but for the purposes of this article, it would seem more expeditious to use the definition of an underwriter from the *Glossary*, published by the Hartford Fire Insurance Company Group, which is the usual conception among insurance people of the function of underwriting: "Any individual or employee of an insurance company who has the responsibility of accepting risks and determining in what amounts."

Certainly, this simple definition makes manifest the fact that there are tremendous opportunities for interesting and remunerative employment for underwriters in property insurance companies. The responsibility of translating the over eleven and one quarter billion dollars in net premiums written by all property carriers in 1955 into a profitable business for the individual carriers rests with the underwriting sections of each.

Actually, to gain a proper insight into the work of an underwriting department, it is essential to realize that insurance is primarily a social device for the elimination and reduction of the cost to society arising from the existence of certain types of risk. The existence of risk creates uncertainty, and insurance in simple terms substitutes the certainty of a relatively small periodic payment (the premium) for the uncertainty of a large and possibly disastrous loss through applicability of the law of large numbers. By calculating the likelihood of loss occurring to the few out of a large number of risks considered together as a group, the insurance carrier is able to figure how much of a fund it will have to create to pay the losses, its own expenses, and have enough left over to make a profit. The larger the group considered and the more accurate the data on past losses, the greater the possibility of the successful application of the law of averages. The role of the underwriting section now can be brought into sharp focus—those responsible for the selection of risks and the subsequent handling of acceptable risks must exercise vigilance to ascertain that the company is offering protection to risks averaging out in quality according to the underlying principles of the insurance plan and at a premium level which will develop the profit presupposed by the accurately predetermined probabilities.

There are those who believe that the workings of the law of large numbers can make selection of risk unnecessary. These people argue that if a company could get enough risks, the volume alone will take care of the losses. Wherever this principle has been tried, however, it has been unsuccessful, since the high premium level made necessary by the lack of selection places the carrier in a competitively unsound position, which in turn defeats the very aim of securing a large volume. Accordingly, a carrier utilizes the services of an underwriter whose goal is to secure a large volume of average risks so that he may assess an average premium. It is then possible to determine which risks depart from average and should be given special consideration. There are two principal hazards leading to deviation from the average—physical and moral—and it is the job of the underwriter to recognize them and know how to handle them.

For the benefit of a young man who might be contemplating a career in property insurance, but who feels that his particular *forte* would not be in the purely sales end of the business, let us examine in brief some of the various functions carried on in the underwriting department of a company. There are wide variations from one carrier to another as to the organization of the underwriting units within

the home office of the particular company. There are apt to be wide variations in the organization of underwriting duties in the field offices of a company. A carrier may even use a method of home office underwriting alignments different from those utilized in field operations. It must be realized that companies differ widely as to size, types of lines written, territorial scope of operations, allied services rendered and in many other ways which will determine just what method of underwriting approach a particular company deems best suits its own peculiar requirements. It should be mentioned that the problems of methods and planning in themselves offer opportunities of employment to men who are interested in pursuing careers in the planning of systems and procedures. Whatever a company's plan of operation, it will probably have need both for specialists and for men underwriting several lines. With respect to the latter, it should be noted that the spread of the multiple line concept in the property field in recent years has created the need for underwriters who can grasp the overall picture to expedite company services to its producers who are selling accounts and not simply policies. Certain functions are common to any underwriting section, however, some of them routine, others bringing the underwriter into contact with new and unusual problems created by the ever changing pattern of our way of living and of conducting business operations.

When a risk is submitted to the underwriter, he must first decide on its acceptability. Depending upon the type of risk and his company's methods of operation, the policy may already have been written by the producer or is to be written up by the underwriting office following due consideration of the submission. In either case, the underwriter gathers as much information as he feels is required to give him an adequate picture of the risk to determine its acceptability. He needs information concerning the physical hazard —the location of the risk, condition of the property, and similar facts. He needs information concerning the moral hazard—facts on the personal and business reputation of the insured or prospective insured which might affect the desirability of the risk. To get this information the underwriter may rely on the picture of the risk as provided by the daily report (the company's record of a policy in force), or the answers to questions developed by an application form completed by the risk, or the data assembled by the company's own inspection unit or engineering division, or the report submitted by an outside investigating service, or the information taken from the files of a service bureau to which the company subscribes. He may ask the producer for additional facts or have the company's special agent in the territory make an investigation. Examination of a risk may require the utilization of a combination of sources of information.

Basic acceptability having been established, the underwriter considers the basis of acceptance. In many lines of property insurance, the form of policy and assessment of premium will be on a purely routine basis. In the more complicated lines, the underwriter may find that the so-called "standard policy form" has to be altered for purposes of the particular risk, and there are even extreme situations where the existing forms just don't do the job at all and a new form has to be drawn up. For these more complicated lines, special rating plans often have to be prepared and it is the responsibility of the underwriter to see that the company secures a sufficient premium for the coverage granted.

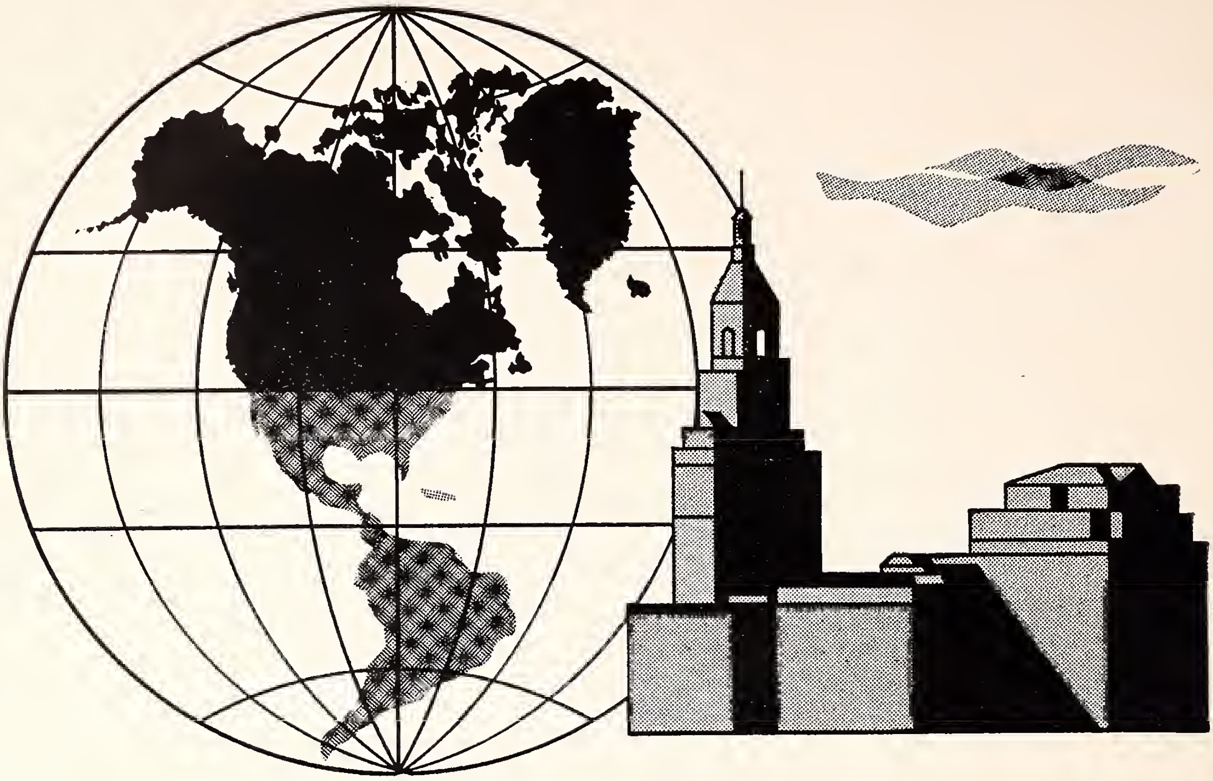
It is true that most policy forms and most rating plans are evolved for a carrier by the bureau to which it subscribes, but lest the young man contemplating an underwriting career concludes that this fact reduces the job of the company underwriter to that of an automaton, it is also true that company representatives serve on the bureau committees which draft policy, endorsement and application forms, formulate the manual rules, and draw up the rating plans for submission to the state authorities for approval.

In all probability, the acceptance and rating of risks will never become a purely routine matter so long as the insurance business remains the highly competitive business that it always has been. In fact, the competitive aspect of the business seems to become more pronounced each year, with beneficial effects accruing to the industry itself and the insurance buying public which it serves. Competition manifests itself most particularly at the point of production, and the underwriter must temper his zeal to make profit for his carrier, with the thought that his standards of acceptance and rating must be realistic from the point of view of the production force. It is not sufficient that the underwriter should have a knowledge only of hazards, forms and premium charges; he must know his producers and their problems and be prepared to assist them in their sales efforts, with due regard for the interests of his employer.

Another element bearing on the basis of acceptability of a risk is the amount of maximum exposure which the carrier may be willing to assume. It is the responsibility of the underwriting unit to avoid excessive exposure to a single hazard, in accordance with the established policies of the company, either by limiting the amount of insurance granted to the insured or by reinsuring the risk with another carrier or group of carriers. Although many carriers arrange their reinsurance matters on an automatic basis, it is often necessary for the underwriter to reinsure a risk on an individual basis. This latter type of reinsurance is known as facultative. It takes long experience in underwriting affairs before a man is qualified to determine what the company policy should be as to maximum retentions of line limits, but the problem gives further weight of evidence as to the fascination of interest that property insurance can exercise over those who are engaged in it by reason of its complexities both as to problems and their solutions.

Once a risk has been written, the underwriter's connection with it remains constant. He must follow the experience both of the individual risk and the class of which it is a part. In addition to the possibility that an individual risk can develop poor experience, there is ever present the possibility that changing conditions in the economic system under which we live can cause an entire class to develop poor experience. In fact, conditions can change within a particular territory, making underwriting adjustments necessary just in that territory rather than on a country or even a state-wide basis. Sometimes it is an agency which deteriorates as a source of profitable business, and the underwriter must determine the reason and take corrective action. The periodic review of loss experience leads logically into the matter of policy renewals, at which time the underwriter must decide whether to continue on a risk or the basis of continuance. The review of a risk at renewal affords the underwriter an opportunity to eliminate the unprofitable risks, to reclassify or rerate those risks which require such, and to rearrange coverage where such seems to be in order. It must not be felt that a review of a risk is for the benefit of the carrier alone, since often the review will result in changes of classification, rating and coverage to the advantage of the policyholder.

Underwriting is a many sided operation, where functions do not entail monotony or job stagnation; and underwriting is an interesting, alive and constantly changing aspect of a dynamic industry.



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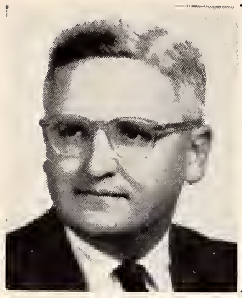
BY ADDISON ROBERTS



Vice President and Director of the Fire Association of Philadelphia. Mr. Roberts, a graduate of William and Mary and Temple University Law School, is a director of a number of firms and a member of the National Board of Fire Underwriters. He is also on the loss adjustment practices committee of the Eastern Underwriters Association.

THE REAL PAY-OFF, both literally and figuratively, in the insurance business comes through the handling of losses and claims. It is the function of the claim department to see that the contractual obligations of the insurance underwriter are discharged in a satisfactory manner. Emphasis should be placed upon the manner in which these obligations are discharged, due to the fact that generally the most intimate contact which an assured or a claimant has with insurance is at the time of the occurrence of a loss or claim. In recent years, insurance companies of all types have been acutely aware of the fact that public relations vary directly in relation to the satisfaction which is given in paying claims. Certainly, it is exceedingly difficult for any type of advertising—no matter how attractive—to overcome the animosity which exists in the mind of anyone who has been dealt with unfairly or discourteously by an insurance company representative.

The investigating and adjusting of claims, from a functional point of view, is divided into two major categories: First, those adjusters who are primarily concerned with the handling and disposition of losses presented by policyholders on property which has been destroyed or damaged or has disappeared. The policyholder who presents the claim may be the owner, a bailee, lessee, mortgagee or anyone who has a financial interest in the property. The policy might cover a home or its contents, jewelry, furs, an industrial plant, industrial machinery, mercantile stocks, automobiles, boats and movable objects of many types. The property may be damaged or destroyed by fire, windstorm, hail, explosion, by motor vehicle or any of the numerous types of accidents. The extent of damage can vary from a small cigarette burn on a sofa to a multimillion dollar loss, such as at the Lavonia, Michigan, General Motors automobile plant—where acres of building and machinery were destroyed by fire in a very short period of time.

In view of the diversity of type of occurrence, as well as many kinds of property which may be involved, it is necessary that the adjuster possess quite a few qualities. Primarily, he must be able to evaluate the cost of many types of construction as well as be very well informed as to pricing practices and methods for practically the entire range of property which is utilized in our way of life. The variations are such that even in one classification an adjuster might be considering what it costs to replace porch furniture in the morning—while in the afternoon he is seeking the value of a unique Chippendale original. Since the person who presents the claim is a customer of the insurance company, the adjuster must at all times be aware of the need to dispose of the insurance buyer's claim in such a way that the insured will continue to do business with the same company. Needless to say, he must have a highly developed ability to meet people and to deal with them in an open, frank, and convincing manner. The extent of the insurance company's obligation is confined within the four corners of the policy contract. Thus, a quasi-legalistic background is a great help in this area of activity. Often the adjuster acts as a detective in the true Sherlock Holmes tradition.

The scope of the work of an adjuster may be illustrated by citing some actual occurrences which resulted in claims under insurance policies. Several years ago a claim was made under a fur floater policy for the loss of a mink coat and two other furs by a wealthy widow who was murdered by her husband on their honeymoon trip to Mexico. The investigation carried the adjuster from Michigan to New York and to Monterey, Mexico—and when the full facts were disclosed the company was able finally to deny liability because of fraud. Actually, it was discovered the mink coat and furs were being worn by the wife of the Mexican attorney who succeeded in getting an acquittal for the husband who had been accused of murdering his wife. It was a convenient method of payment for services rendered. Still another example was the case where the adjuster became involved in an instance where human distress was very pronounced. A short time ago a company was called upon to pay for the loss of a herd of cattle on a farm in Massachusetts. On investigation, the adjuster found that the barn had been completely burned, leaving only mounds of ashes where the cattle had stood. The circumstances under which the fire had started were somewhat suspicious, and the local fire marshal was called in, along with the arson investigator of the National Board of Fire Underwriters. The insured—a young farmer—was ultimately convicted of having started the fire to enable him to collect his insurance and relieve his financial distress. He is currently serving a term in the state penitentiary. Of course, the company was not liable to the insured, but, since the cattle were heavily mortgaged, the mortgagee received payment from the insurance company.

The second category of adjuster or

investigator is one who is primarily concerned with the investigation and disposition of what are known as third party claims. All of us are familiar with the type of contract which protects us from the consequences of injury to other people or their property. Automobile liability insurance is a prime example of the type of insurance which covers your legal liability for injury or damage to other persons or their property. Generally, in the handling of claims of this sort the test as to whether or not the insurance underwriter has a financial obligation to the particular claimant depends upon who is responsible for the accident or occurrence. What were the facts of a particular accident? Was the light red or green? What were the weather conditions? Did the skid marks accurately reflect the rate of speed? How do you reconcile several conflicting eye-witness statements? The investigator must obtain all of the information possible about the accident. He must evaluate the various statements and, in the final analysis, his evaluation must coincide with a reasonable degree of frequency with that which a judicial interpretation would produce.

At first glance, a legal training would appear to be a prerequisite in the handling of third party claims. Experience in insurance companies has indicated that a law degree helps but is by no means a must. Probably the greatest single prerequisite is an inquiring mind, and the ability to delineate between fact and fiction. Today we live in a civilization in which the body of law by which we are governed is constantly changing to reflect modern practices and technological changes. Certainly, the legal concepts relating our duties and obligations to our fellow citizens are undergoing tremendous changes. Unfortunately, most accidents do not fall in the black and white area of right and wrong—but in that gray area where it is exceedingly difficult to determine responsibility. The need for judgment can be illustrated by the not uncommon case where the company has a policy limit of $100,000, but the claimant is suing for $200,000. The case can be settled for $30,000. Obviously, if the assured were responsible for the accident and the injuries were serious, a substantial settlement is rightfully due the claimant. Concomitantly, if the accident were not caused by the assured, then the insurance company is in no way obligated. This example is a rather brief summary of the type of case with which the claims investigator constantly deals. Here the investigator is constantly presented with the fascinating opportunity to match wits in the ever-interesting game of what will be the outcome of litigation where each side is well informed as to the facts but chooses to put entirely different interpretations upon them. It is by no means an unchallenging occupation.

The average insurance company, in addition to adjusters and investigators, has a substantial claims organization which is involved in the supervising, processing, and keeping of the records pertaining to the many thousands of claims which are presented annually. In the corporate structure, from an organization standpoint, the claim department is usually manned by a senior officer—who is responsible to the president for the over-all supervision of claim activities. In this department, the supervisory personnel direct the activities of the adjusters throughout the field. A high percentage of the property and casualty insurance business is conducted by companies which operate on a nation-wide basis. Thus the claims department functions in many categories throughout the entire nation—and often world-wide. Major policy and procedures are worked out in the head office and passed on to the entire organization.

TYPES OF ADJUSTERS

Basically, there are three major types of adjusters or investigators depending on their relationship to the insurance companies they represent. First, we have the type referred to as staff adjusters—who are employees of the insurance company. These men generally work on a salary basis and are assigned to a geographical area where it is expected that they will handle the claims which occur in their territory. The major advantage of this type of relationship is that the adjuster brings to the insuring public a direct contact with his insurance company. By so doing, the policyholder or the claimant is in a good position to judge first hand the calibre of the company which sold him protection. Also, the company controls more directly its claim activities.

The term "bureau" adjusters represents another large segment in the adjustment field. There are several so-called company-owned bureaus—which derive their name from the fact that many years ago several companies joined together to form the various bureaus. Their purpose was to provide facilities for the handling of claims throughout the country. Each bureau was run with a separate management and was set up to handle any claims which were assigned to it by its member companies. Economically, the company-owned bureaus have proved advantageous to the insuring public. Quite often an individual company will not have a sufficient volume of claims in a given geographical location to warrant the expense of having a full time adjuster in that area. By utilizing the services of an adjuster who represents many companies, the expense of each company is kept at a minimum. For example, in St. Johnsbury, Vermont, there are several hundred companies engaging in the insurance business but probably no one has sufficient volume of claims to warrant the employment of a full time adjuster. However, the bureau office in that area can keep its personnel busy by servicing the claims of any of the companies which have losses there.

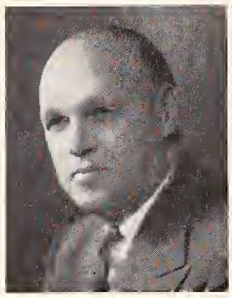
The independent adjuster is the third category which is commonly found in the claims business. Just as the name denotes, he is an independent businessman. Generally, he operates in a limited geographical area and holds himself out to handle claims on behalf of any company that will pay for his services on a quantum merit basis. This type of adjuster may operate either as an individual entrepreneur, in a partnership, or under a corporate form.

Not too much has been said in this article about the actual work in which the adjuster engages on a day to day basis. Partly this is due to the fact that the investigator or adjuster is constantly dealing with ever-changing situations. A ship sinks in the Java Sea and a surveyor in New York has a job. Is the loss total—or can salvage operations succeed? A building contractor fails in Iran and a bonding company in Baltimore sends a representative to take over the job. In this situation, the insurance company investigator may operate the entire contracting company until the jobs bonded by his company are finished. In a sense, he is running a business all on his own for his are the decisions which have to be made on the spot. A windstorm blows in the Northeast and 1,500,000 losses are reported immediately. For weeks the adjuster works long hours, under trying conditions in order that the insuring public may receive the best possible service in their hour of need. Thus, the adjuster sees and is a participant in the hundreds of ways in which insurance aids us to carry on our day to day activities. Insurance has been called the oil which lubricates the machinery that is our economy. The adjuster is in the forefront of this activity. Fortunately, he is able to practice a vocation which, to many of us, has the attributes of an avocation as well.

INVESTMENT

POLICY

BY WILLIAM C. RIDGWAY JR.



President of Crum & Forster. Mr. Ridgway received his AB from Princeton in 1929. He is vice president and director of four firms in the Crum and Forster Group. Mr. Ridgway is also a director of the Marine Midland Trust Company.

THE INVESTMENT POLICY of an insurance company is of paramount importance in successful operation. Fire and casualty insurance companies by the very nature of their operations institute markedly different investment procedures. A fire insurance company writes a limited commitment on a risk for a one year, three year, or even a five year term. As a general rule, casualty insurance is limited to a one-year term, but the maximum liability of the company may reach very high figures. The fire insurance company, therefore, can afford to go deeper into more volatile investment media than can a casualty company, since the fire company lays less importance on liquidity. Consequently fire companies do invest more heavily in common stocks.

The source of investment policy, the finance committee, comprises a group of from four to nine men, all of whom are directors of the company. Sitting as a committee they determine the investment policy of the insurance company, modifying or expanding this policy as investment conditions become favorable or unfavorable.

The decisions of the finance committee are based upon the findings of the investment research department of the insurance company. This department closely follows the earnings of those corporations in which the insurance company has investments to make sure that none of the insurance company funds are invested in a situation that is gradually deteriorating and which might ultimately lose its investment appeal. The investment research department is also charged with the responsibility of investigating new fields of investment for consideration by the finance committee. In addition it is their responsibility to keep abreast of the developments within the economy of the entire country. This includes the constant study of such indices as gross national product, industrial production, retail sales, business loans, building construction, etc., calling to the attention of the finance committee any significant change in such indices. The finance committee applies the statistical and analytical data presented by the investment research department to the underlying principles of insurance investment and determines the policy to be followed.

One basic principle must be considered at all times by the finance committee: that the prime objective of any insurance company is to provide the best possible protection to the insured. A committee, therefore, must be constantly aware that an insurance company is in the business of insurance and cannot at any time be considered as a pure investment trust. This thought must be paramount and this principle upheld at all times in the decisions of a finance committee.

Another factor that is considered in establishing an investment policy for an insurance company is the effect of taxes on investment income. Any investment in treasury, industrial or corporate bonds results in interest income to the insurance company which is fully taxable at the top corporate rate of 52%.

Investment in municipal or so-called tax-exempt bonds, which are the obligations of municipalities, states and various federal and state authorities, such as the current highway revenue turnpike bonds, has great appeal to the insurance company since the interest earned from such bonds is fully exempt from all taxation.

From the tax standpoint, stocks are a desirable investment for the insurance company since 85% of the dividend income is tax free. This means that the present corporate tax rate of 52% applies to only 15% of the dividend income received from investment in stocks. In other words an insurance company is actually taxed 7.8% on the gross dividend income it receives from its investment in such stocks. This indicates the desirability of this type of investment for an insurance company as compared with bonds, since the 52% tax rate is charged against the full interest income from bonds.

Another factor that has been predominant in our thinking during the past ten years is the inflation which has affected not only the values of real estate and insurable property but also has materially affected, through the depreciation of the dollar, the value of funds invested in the bond market. Since bond investments are payable in dollars upon maturity it follows that if the dollar depreciates during the lifetime of the outstanding bond, its dollar value has less purchasing power upon maturity than at the time the bond was bought. This is not true of common stocks since the dollar value of ownership tends to appreciate as inflation increases the dollar cost of operating, producing the product or service, and the price at which it is sold. This increase in the selling price normally produces higher earnings. For this reason during this past period many insurance companies have bought common stocks to protect themselves and their investment portfolios from the debilitating effects of inflation.

As an illustration of the operation of the general principles of investment policy for an insurance company let us consider the December 31, 1955

financial figures of a typical fire insurance company and compare them with the figures of a group of 24 companies in the same field of insurance. This company had at the end of 1955 $66,716,000 in capital surplus and voluntary reserves. At the same time insurance liabilities which included such items as reserves for unearned premiums, loss reserves, etc., amounted to $54,738,000. The ratio of capital funds to insurance liabilities was therefore 122%. This means that, for every dollar of insurance liabilities on the books of this typical insurance company, they held $2.22 of assets to cover this liability. This is a very strong position. The average of the 24 similar companies was $1.81 of assets for every dollar of insurance liabilities. The finance committee in establishing an investment policy for the company must consider the proper ratio between capital funds behind the insurance liabilities and the insurance liabilities themselves.

Finance committees feel that the insurance liabilities of a company should be covered to a large degree by liquid assets, being aware of the liabilities involved in the operation of an insurance company and the responsibility for carrying out the basic principles of insurance.

But let's get back to the capital funds. The capital and surplus of insurance companies represents, theoretically, the policyholders' surplus as well as the surplus that might be available to pay the common stockholders in the event that the company wished to liquidate. This money is also backing up the investment in bonds, etc., covering the insurance liabilities. If the company is a strong one and doing well in its underwriting operations, this money can be used for more aggressive investments, since it does not have to be considered liquid. Because of the tax situation and the effect of inflation, the finance committees normally look toward such media as preferred and common stocks for investment of these funds. Our typical insurance company had 67.2% of its capital funds, i.e., capital surplus and voluntary reserves (not invested assets), invested in common stocks and 3% of its capital funds in preferred stocks. These investments are not considered as liquid funds since it might be difficult to sell any large amounts of this type of investment in a falling stock market. Through these means finance committees attempt to build up investment income after taxes and offset the dollar depreciation in our economy resulting from inflation.

One other factor affecting the thinking of the investment committee is the volume of insurance premiums that is being written by the insurance company at a particular time. Obviously the company that is writing a large volume of business as compared with its capital funds must be more cautious in their investment planning than the company that is writing a small volume in proportion to their capital funds. Any significant drop in the common stock market may materially affect the dollar value of their capital funds and the ratio between capital funds and premium volume may be impaired. In the group of the 24 companies mentioned the ratios ranged from a low of 44c of premium for each dollar of capital funds to a high of $1.80 of premium volume for each dollar of capital funds, a marked difference.

These then are the basic principles of investment policy for an insurance company which must be given consideration at all times. The finance committee meeting from time to time tries to adjust these basic principles of investment to the current condition of the country's economy and more specifically to the conditions of the bond and stock markets. Within the limitations of the basic principles the finance committee determines whether conditions are favorable for an increase in their holdings of common stocks or conversely for a decrease in their common stock holdings. During a period of prosperity they will obviously increase their holdings of ownership in the management of industry through the investment of money in common stock equities. During an unfavorable period they will place funds in dollar obligations or bonds of government or industry. This shift in balance is going on continuously, and the readjustment of the ratio of common stock to bonds in the portfolio is constant.

Having determined the investment atmosphere, the committee must then determine what stocks or bonds to buy or sell. In reaching this decision the work of the investment research department of the insurance company becomes of paramount importance. They must look first at the bond holdings from the standpoint of quality and selection. In the majority of cases this is not difficult, since the insurance company is committed in principle to bonds of a very high quality, thereby maintaining the basic investment principles of security and liquidity. By an analysis of the background of the bond and of the bond indenture together with the interest coverage, which means the number of times that bond interest is earned during the course of the year, the finance committee can judge the desirability of that particular bond for their purpose.

In studying their bond portfolio or in adding to it, the finance committee is always conscious of maturity spacing. Maturities in their bond portfolio should be spread over an extensive period rather than bunched in any one or two years. This is important because from time to time the basic interest rates will affect the value of the bond portfolio. Basically, bonds move up in dollar price when interest rates fall and move down when interest rates rise. By having maturities properly spaced, this fluctuation in values is minimized since short term bonds are more stable than long term bonds and do not normally move, as far as interest rates are concerned, at the same time and in the same direction.

When the purchase or sale of common or preferred stock is contemplated, it is important to investigate carefully the company whose stock is being considered. Here also the investment research department does the basic statistical work and presents to the finance committee a report of the company's earnings, dividend, sales, and income record. This data is obtained from investment reporting services. If these reports are satisfactory, the intangible but important factors of growth, future prospects, new products, and quality of management is carefully studied. Overall consideration of these factors determines final selection of the stocks.

Historically and statistically industrial common stocks have proved less stable in earnings, dividends and market price than banks or utilities. For this reason an insurance company's investment portfolio will frequently include large holdings of utility and bank stocks.

Even such a brief examination of the investment policy of fire and casualty insurance companies as has just been undertaken indicates the wealth of information and the quality of judgment required to guide and carry out such policy. Training in banking and credit, economics, business management, statistics, research techniques, and social and financial history—all are requisite to successful development of a sound investment policy. To the college student majoring in business administration, economics, or mathematics the opportunity for employment in this area of the insurance industry is wide, the work as diversified as his training and interest. His creative faculties in these areas will be constantly called upon, and his individual contribution can be as original as training and ability permit. Here may be found an interesting career in insurance.

* * *

FIRE

PREVENTION

BY JOHN A. NEALE

Chief Engineer of the National Board of Fire Underwriters. Mr. Neale's career began in 1915 when, after graduation from Tufts College, he went to work as a fire protection engineer. By 1950 he had become chief engineer of the NBFU and in 1956 was elected president of the National Fire Protection Association.

ANNUALLY, 12,000 people lose their lives and many times that number suffer pain and disfigurement by fire in our country.

Last year there were approximately a million outbreaks of fire and an estimated property loss of over 885 million dollars. The indirect loss—that is, loss of wages, loss of profits, loss of business, loss of taxable property, etc.—is an added unknown multiple of that figure.

To understand the economics of this it should be realized that insurance payments do not replace the property destroyed. They simply reimburse the loser in money. The property destroyed is material and the product of labor that has gone forever. This can be a serious situation and is best realized when the destroyed material is in scarce supply and when time is of the essence. Such conditions may prevail at times of national emergency.

It is an established fact that most fires are preventable.

This, then, is the problem: Reduction of loss of life and injury, reduction of destruction of property together with its attendant costs. The two facets of the problem, loss of life and loss of property, are essentially one; the measures that help one help the other.

Fire insurance companies have traditionally been active in fire prevention and control. Operating on the principle that they would rather insure a good risk at a low rate than a poor one at a high rate, they have pointed out to the property owner the existing fire hazards on his property and have outlined methods of improvement. In the past, until it was recognized as a governmental responsibility, the companies operated fire departments for the protection of their insureds.

Fire protection activity on the part of fire insurance companies is widespread in scope and affords employment for a large number of men of the professional engineer and technician grades.

Fire protection engineering, a rapidly expanding activity, has recently achieved professional status. In 1950 the Society of Fire Protection Engineers was formed having membership standards equivalent to those of the founder engineering societies. Its membership now numbers nearly 1,000. One college, Illinois Institute of Technology, has for many years offered a four-year course leading to a degree of Fire Protection Engineer. Its graduates have always been in demand. Other engineering schools are making such courses available.

Fire protection cuts across all engineering lines. Its scope can involve all the features of municipal fire protection, of protection of industrial processes and materials, construction of buildings and the proper use of the many methods of fire control and extinguishment.

Into this field properly fits the civil, mechanical, electrical, chemical, and industrial engineer, using his basic engineering education as a foundation for specialized fire protection training. Most employers of fire protection engineers expect to provide this specialized training after employment.

The fire insurance business is not the only employer of this type of man but it is probably the field of greatest variety and largest demand. The fire protection engineer can also locate in industry, in government, or with firms of consultants. Most of these fields did not exist in anything like their present scope only ten or twenty years ago.

There are a number of reasons for the increased activity in this field. As our economy is training down to finer margins, waste of this nature cannot be tolerated. Our homes and places of business are containing more devices and services, most of which are potential fire hazards. Industry, in striving for greater efficiency, is using higher pressures, higher temperatures and higher speeds. The use of flammable liquids, explosive gases and dusts, and combustible metals is increasing. Areas of industrial buildings are increasing. Large buildings make large fires and for a number of reasons industry is decentralizing into areas where municipal fire protection commensurate with the plant's needs does not exist.

Simply stated, potential fire causes have multiplied and the opportunities for large fires have increased making it more necessary than formerly that "somebody do something about it."

The fire protection engineer working for a fire insurance company may find himself at times straying far afield from fire protection, due to the fact that these companies traditionally insure other perils in addition to fire.

Explosion opens up a wide and interesting field of study. They are somewhat unique in that explosions cannot be fought; they must be prevented. Many processes now in wide use have severe explosion potential. These processes could not be conducted, had not the engineer reduced the hazard to a safe level.

Windstorm insurance is commonly written by fire insurance companies. While we don't yet know how to prevent a windstorm, it is in the realm of possibilty that we some day will. In the meantime, we can tell what

types of construction are particularly poor in wind resistive features and how these weaknesses can be remedied.

In the fire insurance structure, and I'm referring to the capital stock companies, there are a number of organizations doing fire protection engineering. There are the companies themselves; the National Board of Fire Underwriters, and the educational, engineering and statistical organization supported by these companies; Underwriters' Laboratories, Inc., sponsored by the National Board of Fire Underwriters; the inspection and rating organizations operating in the several states; and the numerous regional and underwriting organizations and pools developed to specialize in various classes of property.

There is another approach to fire prevention which is very effective in its particular field. It is non-technical. It is based on the fact that many fires are due to carelessness and thoughtlessness. These are the fires caused by careless disposal of smokers' materials, careless operation of heating appliances, improper storage of oily mops and rags, permitting accumulations of combustible rubbish and the like. It has been demonstrated that if people can be made fire conscious the number of fires due to carelessness will reduce. However, this state of mind does not persist. It has to be sustained by frequent and varied stimuli.

This approach is implemented by posters, bulletins, slogans, non-technical publications, films, radio and television shorts, fire prevention week activities, fire prevention contests, etc.

In the fire insurance business this approach to the general problem is usually handled through the public relations or advertising personnel and makes considerable use of statistical material in developing items of current concern and determining where emphasis should be placed as regards locality and season.

Another phase of fire protection engineering involves the development of codes and standards for building construction, safeguarding of hazardous installations, and installation of fire protection devices and systems. In this work the representative of the insurance companies comes in close contact with technical personnel of other industries. Much of the work is done through the National Fire Protection Association which affords a discussion forum for industry, government, insurance, the fire services, and others interested. It has over 100 technical committees whose rosters include nearly all groups who have a legitimate interest in the subject and who are willing and able to contribute their time and knowledge. From these committees stem standards on a great many subjects bearing on fire protection. These standards are adopted, published, and distributed by the National Board of Fire Underwriters and become widely accepted standards of good practice. In many instances they become adopted as law by cities, states, and other governmental units. Other standards, research reports, and studies on current developments are prepared by the insurance boards and bureaus.

In summing up the situation it can be said that there has been a very marked increase in the science and practice of fire protection in recent years. This increase has come about as the result of necessity. Fire protection enters all the engineering fields and those of public relations and propaganda—the proper type, of course. Those engaged in fire protection find it stimulating on account of its varied aspects and broad range as well as productive of an inner satisfaction that comes from performing a duty that has more than the mere accumulation of money as its objective.

ACCIDENT

PREVENTION

BY THOMAS N. BOATE

Manager of the Accident Prevention Department of the Association of Casualty and Surety Companies. Mr. Boate accepted the appointment to the staff of the Association in 1944 after retiring as head of the Traffic Division of the Pennsylvania State Police. He was a student of law at the LaSalle Extension University in Chicago for six years.

If you are one of the relatively few Americans who knows that the insurance industry is the great force behind the national safety movement, you have probably heard the explanation that the insurance industry has assumed humanitarian obligations . . . or even that it is possessed of "enlightened self-interest."

Precisely speaking, neither is correct. Both imply that the interests of insurance companies are divergent to those of the public. They are not. The insurance industry has made its very substantial contribution to the betterment of man's working and living conditions because the *self-interest of insurance companies is essentially identical with the self-interest of the public.*

To explain this more fully, let's look at a handful of basic principles that are axiomatic to casualty insurance:

1. The public needs protection against financial loss due to accidents.
2. The insurance industry supplies this financial protection.
3. Accident prevention is important to all industries. It means increased production, minimum insurance premiums, and a more profitable operation.
4. Accident prevention is important to employees. It means improved working conditions, less hazard to life and limb, and a greater potential income.
5. Accident prevention is important to the insurance company. By keeping accidents down, it helps to keep premium rates down—and the lower the rates, the greater the opportunity to extend insurance coverage to a broader base of customers.
6. Accident prevention is important to the nation, because it saves lives, conserves material resources, strengthens the economy, and safeguards the public welfare.

In other words, everyone benefits from accident prevention.

With this background, you can perhaps better understand why accident prevention, as it stems from the insurance industry, is simultaneously practical and humanitarian. The insurance industry, as a profit-making segment of our economy, is unique in that it cannot serve its own ends without working for the public welfare.

HOW ACCIDENTS ARE PREVENTED

Accident prevention to the property or casualty insurance company is a big operation, and it grows larger with each new technological development that permeates the American scene. The first full-time safety specialist was employed by a casualty insurance company in 1894. Today there are thousands of insurance "safety engineers" and almost every casualty company has a separate accident prevention unit called generally the "Engineering Department" or the "Loss Prevention and Engineering Department" or frequently the "Engineering and Inspection Department."

The word "engineering" in this departmental designation is highly descriptive because, very like the science of engineering, accident prevention deals with the design, construction and operation of the various structures, machines, engines, and other devices used in industry and everyday life. Thus, the profession of accident prevention, in insurance terminology, becomes "safety engineering," and the specialist in this profession becomes known as the "safety engineer."

The purpose of a casualty company's engineering department is to prevent accidents to the company's insureds. Primarily, this is accomplished by: a) periodically and carefully inspecting the potential danger spots of the policyholder's property; b) recommending ways of protecting against these potential sources of accidents; and c) working with the policyholder and his staff to see that these recommendations are satisfactorily put into effect.

For the benefit of the policyholder, the department also may conduct research and laboratory work in occupational disease exposures and work hazards to help develop a safer working environment. A number of the larger engineering departments maintain complete laboratory facilities, employing chemists, industrial hygienists, and various types of engineers for these purposes.

Because the engineering department has a specialized technical knowledge, it also serves as the "eyes and ears" of the company underwriting department by inspecting the property of prospective policyholders and making detailed reports, on the basis of which insurance policies can be written. This is a secondary but highly important function of the safety engineer.

Following the trend of other businesses, insurance engineering departments are more and more becoming decentralized. The very large casualty companies employ from 200 to 500 insurance engineers, the majority of which are located in field offices throughout the country.

Below is a diagram of how the engineering department of a casualty company might be set up. I use the

word "might" because no two engineering departments are set up alike. But no matter what the structure, the home office engineering department generally serves as a consulting office. In the structure outlined in the diagram, the six consulting engineers are specialists in each of the six insurance lines listed. The major activity of the engineering department—the direct engineering service—is conducted primarily through the field offices. The supervising engineer in charge of the field office and the engineers under him are the direct link with the insured.

The good field engineer is sort of a jack-of-all-trades. He must have the experience and ability to work with insureds on every line of coverage written by his company, whether automobile, aviation, boiler and machinery, burglary, compensation and liability, completion and fidelity bonds, elevator, fire, inland marine, plate glass, product liability, or wet marine.

The basic responsibility of the insurance engineer is to inspect the property of the policyholder for potential hazards. Thus, he may one day tour a factory checking for physical hazards, another day inspect elevators and still another day don a couple of layers of heat-resistant clothing to inspect boilers. But the work of the field engineer goes far beyond this. Quite often he must develop comprehensive safety programs for industry, organize plant safety committees, conduct safety meetings and work with management to set up accident reporting and investigating systems and schedules of preventive maintenance. It is this variety of assignments that makes insurance engineering a fascinating occupation.

INSURANCE ENGINEERING AS A PROFESSION

The insurance engineer should be a man of many talents: technician, salesman, diplomat, publicity man, teacher, psychologist, writer and public speaker. He will need considerable legal knowledge of state and city safety laws, codes and standards; he must have enough medical information to be familiar with occupational diseases and industrial hygiene hazards; he will need the critical eye of an analyst and the imagination of an inventor.

Although an engineering background is not always required, it generally gets first preference. Among casualty insurance engineers are graduate and professional engineers from each of the major specialisms — mechanical, civil, electrical, chemical, etc. The recommended educational background for an insurance engineer may include courses in general engineering, industrial psychology, sales psychology, public speaking, report-writing, industrial training techniques, chemistry, physics, shop technique, mathematics, industrial management, occupational diseases, and problems of safety administration.

The opportunity is great today for young men wishing to enter the field. The two outstanding advantages offered are the assurance of a fascinating career, and security. (During the Great Depression, insurance engineers were virtually the only engineers with no job worries.) The salary range for casualty field engineers today is somewhere in the neighborhood of $4,200 to $10,000. Many insurance companies provide automobiles and all car expenses for their engineers, full tuition for any educational courses relating to the profession, and membership dues in technical societies.

BETTER SERVICE THROUGH POOLED EFFORTS

Early in the twentieth century, preceding the organization of the national safety movement by a number of years, casualty insurance companies came to the conclusion that by pooling their specialized knowledge of accident prevention techniques, they could better serve their insureds and simultaneously render a notable service to the public in general. This was accomplished through the medium of the trade association. Today there are three trade

associations in the casualty insurance field, each of which conducts an extensive accident prevention service under the guidance of the engineering departments of its member companies, to benefit both its members and the public. The trade association dove-tails its work into the over-all accident prevention picture because it performs services in the name of many insurance companies which no one individual company could perform singly.

To illustrate, let me present a brief listing of the accident prevention activities conducted by the trade association which I represent:

INDUSTRIAL SAFETY SERVICES

Five major types of service are conducted to help prevent accidents in industry:

1) Research into the potential industrial hazards presented by new products, chemicals, equipment, processes and operations, as well as the study of techniques for industrial hygiene and health;

2) Promotion and sponsorship of safety laws, codes and regulations through such national standard-making organizations as the American Standards Association and the National Fire Protection Association;

3) Industrial safety publications for employees and management;

4) Furtherance of the employment of the physically handicapped;

5) Consultation service for legislators, government agencies, and administrative officials and special help in establishing safety programs for entire industries through their trade associations.

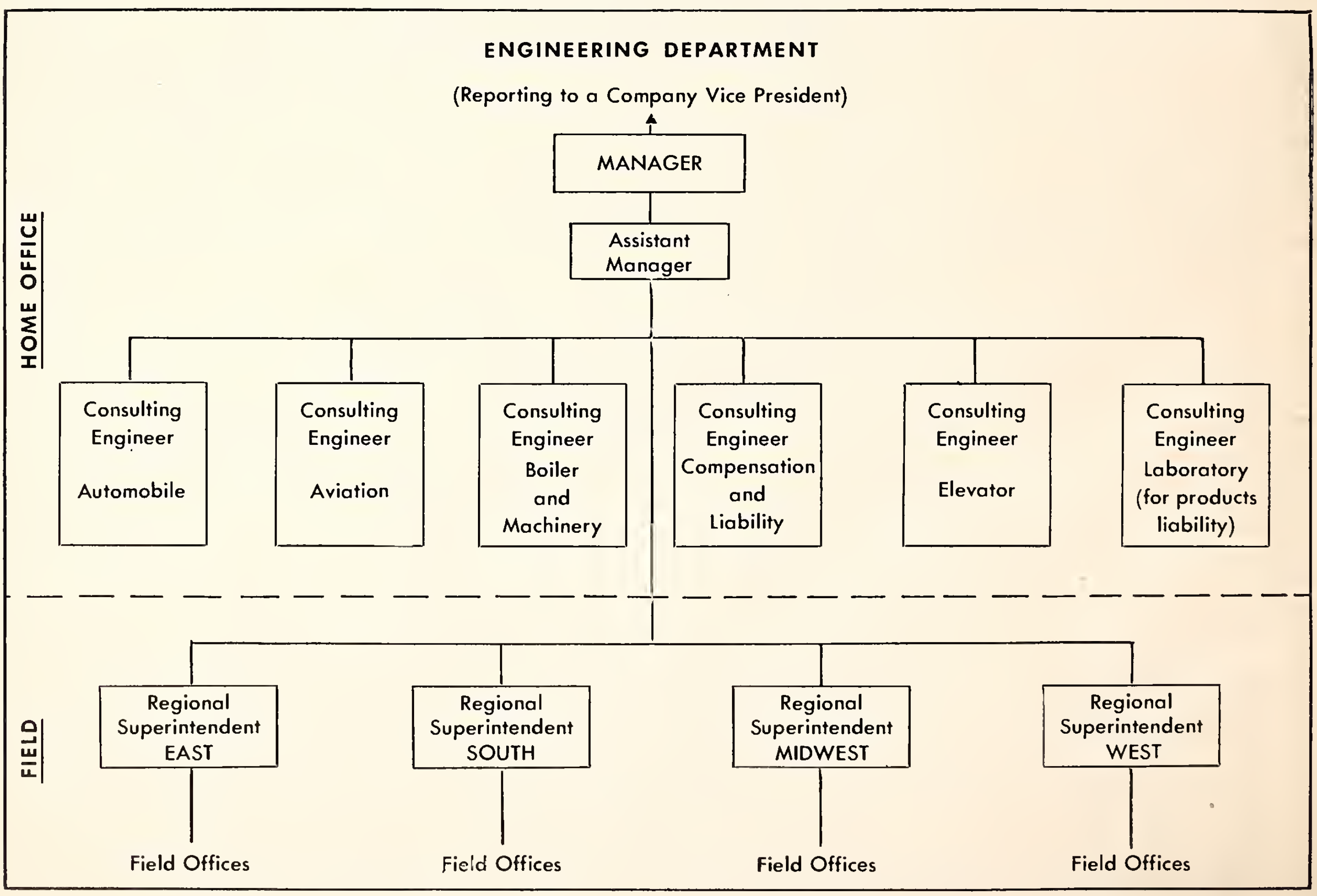
TRAFFIC SAFETY SERVICES

The biggest problem in the safety field today—and probably for many years to come—is traffic accidents. Traffic safety cannot be approached in the same manner as the engineer would apply a guard to an industrial machine, because it is primarily a problem of human behavior, and the prime responsibility for safety on streets and highways rests with state and local government. Therefore, from the insurance point of view, traffic accident prevention efforts are a direct public service, and as such are usually conducted cooperatively through the facilities of the trade association.

Since the insurance industry is imminently practical, and since its only objective in the area of accident prevention is to prevent accidents, it concentrates its traffic safety efforts on the source of greatest promise: the official agencies of government which are charged with the responsibility of highway safety. Thus, the most significant aspect of our Accident Prevention Department's traffic safety activity is its assistance to public officials.

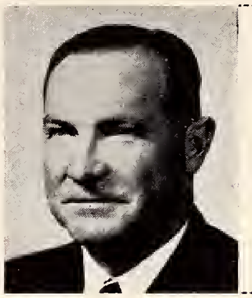
To explain this interesting — and generally unknown — contribution of the insurance industry to the traffic safety movement would transform this brief article into an essay of considerable length. As an example of this work, however, let me point out that through the assistance of our staff and through outright financial grants, we work for improved driver licensing procedures through the American Association of Motor Vehicle Administrators and for strengthened law enforcement through the Northwestern University Traffic Institute and the American Bar Association. By thus working "behind the scenes" to prevent accidents on the highways, we have made a contribution to the public welfare which exceeds the boundaries of measurement.

If there is one point to remember from this sketchy presentation, I would say it is this: insurance engineering is a vital and growing profession, needing a constant replenishment of manpower resources to meet the demands of an ever more complex technological society. For young men with initiative and basic qualifications, it offers a promising and rewarding field of employment.



ACCOUNTING AND THE TREND TOWARD AUTOMATION

BY CLARKE SMITH



United States Manager of the Royal-Liverpool Insurance Group. Educated at the University of North Carolina, Mr. Smith joined the Royal-Liverpool Group in 1926 as a special agent. He became president of one of the companies in the group in 1944, deputy United States manager of the entire group in 1948, and was named to his present position in 1952.

THE ASSOCIATION of automation with insurance may seem rather strange. The art of creating a product automatically has largely been reserved for our manufacturing friends whose business problems permit the use of unmanned machines in their mechanized assembly lines. In a business such as ours, where services are the end results rather than products, automation as defined in the factory will for some time remain an illusory objective. Meanwhile, we look with interest to the many things electronics will do for us in the field of "data processing."

The growth of the insurance industry has been tremendous, and like most businesses, has felt the effects of rising costs and manpower shortages. Therefore, as distinguished from "automation," our approach in the direction of "data processing" has as its objective the accomplishment of our "paper work" in a more efficient manner.

During and immediately following World War II, electronic computing devices were used in solving many problems accompanying the development of aircraft, guided missiles, and other defense necessities. From these and other mathematical beginnings, the use of electronic devices, technically improved, moved in many directions such as automatic controls used in factory "automation." Scientists and manufacturers soon realized that the same machines with modifications could be used to process information and undertake clerical tasks performed in offices.

As these developments occurred, the insurance industry began the study of electronic application to the voluminous paper work and calculations in their offices. The Royal-Liverpool Group, for example, had their staff studying various electronic systems as early as 1950 and by 1953 preliminary recommendations were submitted to the management.

From these observations and formal studies that followed, insurance companies learned much about electronic processing: probable results, problems, methods of approach, and the complications of installation. At the outset, we learned that not all companies can profitably use electronic machinery and those that can must take care in selecting the right type as there are many machines and differing systems available.

Factors influencing these decisions are volume of premium writings, distribution by lines of business, organizational structure of the company, and others; because of this, it is unlikely that all companies will reach similar decisions as to the equipment suitable for their use.

Initial efforts must, therefore, be concentrated on these considerations and tentative decisions developed as to selection of equipment and extent to which electronic processing will likely be applied. Once detailed planning has begun, it becomes expensive to alter the selection of equipment unless the reasons are compelling.

In our organization, initial studies led to the conclusion that electronic processing would ultimately be profitable. We further believed that a smaller machine would be unable to deal with our volume and in multiple units would exceed the cost of a large-scale processing system. We therefore turned toward large scale or popular "giant brain" equipment with the knowledge from our studies that its planning would involve extensive alterations in our systems, but that ultimately proportionate economies would be realized.

It also became obvious that higher costs would be experienced until sufficient transition had been made to support the venture which could take two or more years after installation, depending on the complexity of the business. Not only are research and planning costs high, but when large scale machinery is selected extensive preparations must be made for housing, including rigid humidity and temperature controls. Cost of the equipment, whether purchased or leased, and the expense of converting from one system to another are major expenses.

However, the virtues of electronic machines offer savings in space, in the time to do a job, reductions in clerical help, replacement of conventional machinery, and the advantages of doing several jobs simultaneously, all of which can be measured against present costs.

When the decisions as to equipment and scope of applications are made, the study group should be augmented by a regular planning staff to work out the multitude of details prior to installation. Electronic machinery must be instructed in the duties it performs on the information given it and for each job it must do. These instructions must be conceived by a full time staff, then recorded on tape or punched cards in a language the machine understands. These steps are not only technically complicated and require schooling in the machinery as a prerequisite, but the planning personnel must be intimately acquainted with details of incoming information, as well as have an understanding of expected results.

Experience indicates that prior to

installation the planning staff will require three or more years of preparation, depending on equipment selected and the scope of applications. This staff will vary in number according to the size of the company, but must be sufficiently generous in quality and quantity of personnel to explore all changes that will result from adopting electronic equipment. More than likely, this research will continue on some semi-permanent basis after the installation of the system. In the Royal-Liverpool Group we have a full time planning staff selected from within the organization but with additions from our recruiting program. Another group from our statistical and accounting departments was given electronic schooling and assists the planning staff as their duties permit.

Larger organizations considering electronic processing in major areas such as accounting, statistics, policy renewing, and general disbursements should develop a program which can be applied step by step, properly coordinating the functions. For example, as costs of recording and operating the equipment are high, planning for multiple use of a single recording on tapes or cards is most desirable; further, as many results as possible should be extracted from each pass of the tape through the equipment. In our case, the planning in each area was delegated to two or more members of the planning staff and their progress supervised in a manner that assures us the areas will be coordinated, duplication of effort non-existent, and results produced as expected when the system goes into operation.

Our clerical operations were considered in these five areas: 1) underwriting (simple lines), rating, coding, and policywriting; 2) premium accounting; 3) disbursements and general accounting; 4) statistics; and 5) entry and communications.

Before examining these areas, a general description of how electronic processing works in an insurance organization is in order. Details will differ among companies, but the present framework through which transactions flow toward accounting and statistical results will likely be retained, although methods will be substantially altered.

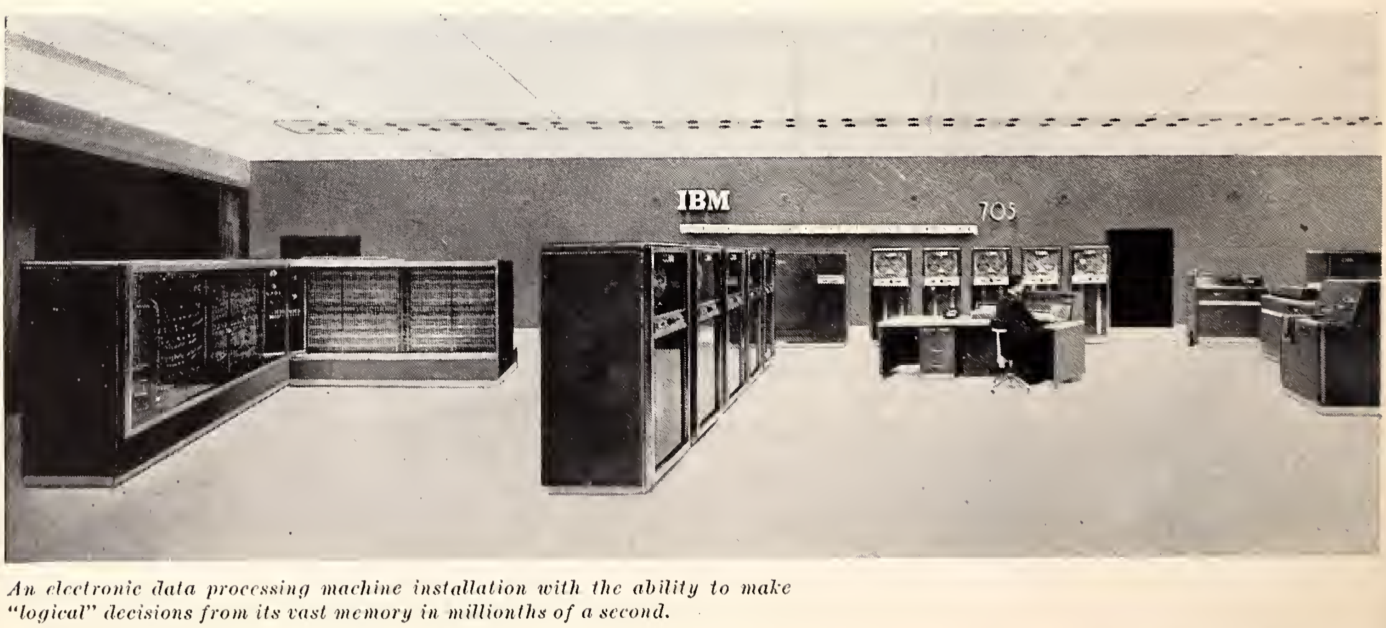
Generally, applications for insurance, endorsements, and other premium transactions begin, as far as company processing is concerned, in an underwriting function which includes rating, policywriting where required, and classification for statistical purposes. The transactions are then key-punched and the resulting cards processed on tabulating machinery to produce accounting and statistical results, a process which usually involves many passes of the cards. Peripheral record keeping takes place at various stations for other records pertinent to insurance services.

The first major step in our electronic future will be the conversion of tabulating cards punched on daily transactions to magnetic tape. From this point the electronic devices will take over much of the accounting and statistical work, operating with tape as input somewhat in the manner of a wire recorder but much faster, storing information within its memory according to the particular job being performed. Results will be taken from its prodigious memory also in the form of magnetic tape and independently printed in the desired form of statistical statements, bills, or other accounting details.

A next logical step arising from the abilities of the machinery is the addition on our punched cards of information used in rating, policywriting, and subsidiary record-keeping. This permits the use of the basic tapes for policy renewing and other document preparation. Similarly, in the recording of losses and disbursements, further information recorded on our present cards will enable us to develop more automatic record-keeping of expenses after converting the punched cards to magnetic tapes. The extent to which some of these things will be done will vary. As an example, in many companies where policies are agency written, restrictions are placed on electronic renewing; other functions must therefore justify the equipment.

As each job is processed through the electronic system, the instructions for the job as programmed by the planning group and also placed on punched cards or tapes are first fed into and stored in the "memory" of the machine so that as the tapes for daily transactions are introduced, the machinery will be self-instructing in acting upon the details. When one job is completed, the machinery is cleared and the instructions followed by another pass of the detailed tape are introduced for the next job.

Therefore, information reaches the processing function much the same as present, except that the punched cards are converted to tape, results produced on tape (or on punched cards) and printed therefrom in the desired form. All information remains on the tapes and may be used as frequently as needed or stored as long as the information remains useful. If policy renewing is contemplated, the tapes are withdrawn from file at renewal intervals, corrected for changes, and rerun through the system for renewal documents; thus, the cycle regenerates



An electronic data processing machine installation with the ability to make "logical" decisions from its vast memory in millionths of a second.

The operating console of an electronic data processing machine where functions like the making out and addressing of bills can be performed.

and repeats. Instruction tapes for each job are also re-used as necessary but may be changed as required.

After carefully exploring the major areas, our organization decided that premium accounting and statistical requirements should be among the first applications. In our premium accounting alone there is much to anticipate as our research indicates that the time now spent clerically in sorting, filing, comparing, and other simple tasks can be performed by electronic machinery.

The demands of the various state insurance departments have added to the complexities of our general accounting, and in this area the capabilities of the machines will be of assistance. A more comprehensive cost accounting in our business may be possible as well as improved budgets and expense analysis.

In compiling statistics, the speed and capacities of electronic machinery offer us means of providing managerial and statistical reports more quickly, leading to prompt executive action as the course of the business develops. As an illustration of statistics, we now compile results of our field forces and agencies at frequent intervals. Not only will these statistics be accelerated, but unprofitable results can be brought out automatically for underwriting attention.

The performance of the machine in rating, coding, renewal writing, and even underwriting of mass-produced policies is only a few years away. Some companies have already begun to renew automobile policies to a limited extent. We have, since early 1956, been writing, electronically, private passenger car renewal policies in the New York City area in sufficient volume to test this application. The results have been encouraging. The electronically produced policies have been well received by our producers and assureds. In this application, after the basic policy information has been recorded on tape, the machine rates 2500 policies hourly and prints the renewals at the rate of 400 each hour. These speeds will increase when improved equipment becomes available.

When processing lines with simple underwriting criteria, electronic machinery can be instructed to examine each risk for underwriting acceptability, processing those risks falling within underwriting bounds and rejecting those not within such limits. Underwriters, as a result, may be freed of much paper work, enabling them to devote their time to risks requiring underwriting attention. We shall also furnish our underwriters with more comprehensive and timely statistics on their results, particularly in unprofitable areas. Much of this information, expensive to compile, now properly anticipated and planned, will be economically available.

The case for electronics in insurance is incomplete if mention were not made of the problems encountered in planning. Good things, unfortunately, never come true by the wave of a wand.

The most important, perhaps, are the arrangements for decision-making. Beginning with senior executives taking a personal interest and passing on to the planning group, with the operating staff advised at each step, the organization for electronics should be geared for decision-making to facilitate the changes that will be brought about by new thinking.

We also learned that the results produced by electronic machinery are no better than the accuracy of details upon which it acts, information which is assembled in written, typed, or coded form, transcribed to punched cards and finally to magnetic tape, before reaching the electronic system. All of this information in its original form is prepared at clerical levels and must be dependable or the results will be expensive to correct. The human skills will still be with us, so accuracy in these functions is vitally important.

In policy-renewing, we learned the virtues of accuracy for the most insignificant error in preparation assumed significance in the finished renewal as the machine was obliged to act upon whatever information it received.

Another important consideration is that operations, and results must be planned in advance. Instruction writing for each job requires several months of programming and testing. Once this is done, the instructions can be re-used indefinitely and even modified in a minor way as required. However, should a new report be required or extensive changes made, time must be allowed for the planners to write the instructions. The machinery and staff cannot cope with unexpected demands for immediate information, whatever the source.

Attention must also be given to communications between outlying offices and the electronic processing center. It appears unwise to harness a new machine which does many things rapidly to a slow communication system involving transmission of information from its source to the machinery and dispersal of finished products, i.e., renewal policies, accounting and statistical results. These problems have not completely been solved, but we are confident that the manufacturers will provide us with direct reading devices that automatically scan a typed document and record the information directly on magnetic tape and that the transmitting industry will offer means of sending magnetic tapes by wire so that our services will be "up-to-the-minute" in all respects.

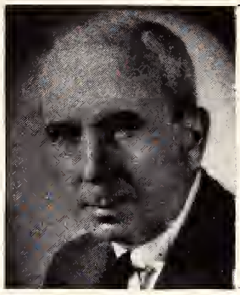
These are some of the specifics of electronic processing problems, but a few broad points must be added. Some have said that we must "re-think" many of our present methods, that we would err if this new vehicle were introduced merely as a substitute for existing practices. To go further—and herein lies the importance of executive communication with the electronic staff—some "re-thinking" of traditional divisions of organizational responsibilities, our forms, methods, and customs, will lead to an examination of many present practices.

In doing so we shall use the opportunity of "electronic data processing" as a means of reviewing our present systems to the end that we have not just replaced our conventional accounting and statistical machinery but we have adopted an improved system designed to benefit the whole organization, the industry, and the insuring public.

* * *

THE LEGAL DEPARTMENT

BY FRANCIS VAN ORMAN



Vice President of The American Insurance Company, Mr. Van Orman is a member of the Bar in New Jersey and New York. He is also a member of the Bar of the Supreme Court of the United States.

I SUPPOSE there is no business with more legal aspects than the property and liability insurance business, and I doubt that any other business uses more lawyers, or in the aggregate pays more salaries and fees to lawyers. There are many and varied opportunities in the business or in the law firms representing the business for young lawyers who have what management wants.

These companies have most of the legal problems of ordinary business corporations, so it is pertinent to note that business now generally exists in a much different legal environment than even twenty-five years ago. In those days management called in its lawyers when it ran into a legal problem, and that was only occasionally. Now management makes plans and decisions with a lawyer at its elbow so that legal problems can be avoided. There are not many moves which management will make today without considering the legal aspects of the matter in advance. Frequently decisions are not just business decisions but mixed business and legal decisions, and even when decisions are just business decisions it sometimes takes a lawyer to find that out.

In the last twenty-five years, laws affecting business have been enacted over a broad front and to an unprecedented extent. We have new laws on securities and financing, labor relations, wages and hours, social security, fair employment practices, unemployment insurance and disability benefits, to mention but some of them. We also have extended antitrust laws and greatly broadened tax laws.

The property and liability insurance business is inherently complex and has many legal aspects peculiar to itself. Many of the companies in the business are writing policies in all the states of the United States, District of Columbia, Alaska, Hawaii, Puerto Rico, and the Canadian Provinces, and are subject to the laws of each of these jurisdictions and the regulations of each of the governmental agencies supervising the insurance business.

The legal environment of the property and liability insurance companies underwent a historic change on June 4, 1944 when the Supreme Court of the United States handed down its decision in *United States v. Southeastern Underwriters Association, et al.*, in which it held that insurance is commerce, and that when conducted across state lines it is interstate commerce and subject to the Sherman Antitrust Act and, by implication, to other federal antitrust laws. In addition to introducing insurance management to the federal antitrust laws, the SEUA decision caused great concern that the system of state regulation of the insurance business would give way to a federal system of regulation. Congress was importuned by all concerned with saving state regulation, and finally gave us Public Law 15 (79th Congress) effective March 9, 1945, also known as the McCarran Act. In this act was expressed the intention of Congress that the continued regulation and taxation by the several states of the business of insurance is in the public interest; that such business is to be subject to the laws of the several states which relate to the regulation or taxation of such business; and that the Sherman Act, Clayton Act, Federal Trade Commission Act and Robinson-Patman Act should be applicable to the business of insurance "to the extent that such business is not regulated by state Law."

In order to get the business out from under those federal antitrust laws, and particularly to permit property and liability insurance companies to continue to make insurance rates in concert, an All-Industry Committee was organized under the auspices of National Association of Insurance Commissioners (NAIC), which is the organization of state regulatory officials having to do with the insurance business. After prodigious labors, the All-Industry Committee eventually recommended to the Association rate regulatory bills for fire and marine insurance and for casualty and surety insurance. In turn these model bills were recommended to the state legislatures and now there is rate regulatory legislation on the statute books of all states. The All-Industry Committee and the NAIC also recommended a Fair Trade Practices Act relating to unfair methods of competition and unfair and deceptive practices in the business of insurance. It empowers the insurance commissioners in some cases to issue "cease-and-desist" orders, and in other cases the attorney general is empowered to institute court proceedings to enjoin and restrain the alleged unfair or deceptive acts. Thirty-eight states and Hawaii have passed Fair Trade Practice Laws.

In every session of the Congress and of the state legislatures, there are bills introduced which bear on the business of the property and liability insurance companies. The vast amount of these legislative introductions will surprise you. There are as many as ten thousand in some years. Fortunately, most of the bills fall of their own weight, but as to a great number there is need for the lawyers to write memoranda explaining the position of the companies, to suggest amendments and im-

provements, to attend public hearings, to lobby actively for or against.

The companies must keep up their relations with the insurance commissioners and their staffs. For the most part management delegates this representation to the lawyers who are very active in the affairs of the NAIC, which meets in convention twice each year and which has zone meetings and committee meetings through the year.

Trade associations have a general counsel and other lawyers on their staffs, but in addition there are legal committees, the members of which are home office counsel for their companies. Many important legal decisions for the business are made by the trade association lawyers working with the legal committees. Home office counsel also sit on legislative committees of the trade associations and on legal committees of rating bureaus and underwriting pools and syndicates.

It has been said that the insurance companies have an interest one way or another in at least half of all litigation in the United States, and this is particularly true in the case of the companies who write liability insurance. Automobile liability insurance alone produces an amazing number of claims against the policyholders of the insurance companies, and although all but a very small percentage of these are settled without litigation, there remains so much litigation that the calendars in the courts in our metropolitan areas are badly congested. The companies recognize a social responsibility to see to it that there is no more litigation than is absolutely necessary, and that necessary litigation is handled as expeditiously as possible. The companies, particularly through the trade associations, cooperate in any effort to improve the administration of justice by the courts, the legislatures and by responsible study groups such as the one just being organized at Columbia University School of Law. Management encourages its lawyers to participate actively as professional men in the work of American Bar Association, International Association of Insurance Counsel, Federation of Insurance Counsel, and state and local bar associations.

There are full-time salaried lawyers in the home offices of most companies, and the larger companies have them at important departmental and branch offices as well, but there is no industry pattern, as each company arranges its legal staff to suit its own needs and ideas. At some home offices the lawyers give general counsel to all officials and department heads. At others, some of the lawyers are assigned to individual departments and, as a practical matter, become special counsel to those departments. Leading law firms specializing in corporate and financial law are frequently retained, or are on retainer. Specialists are likely to be retained for certain types of labor problems, some tax matters, and for real estate transactions.

The management officials of these companies are no ordinary clients. They are accustomed to laws and lawyers, and can appreciate wise counsel when they get it. They can distinguish the legal from the practical, and they know when a mountain is being made from a mole hill. Management wants to be told how it can accomplish its objectives within the laws, the rules and regulations. They expect their lawyers to know the business. The lawyer who says that it can't be done had better have solid reasons to back him up and be able to show there are no alternatives.

It is an interesting business, never dull, always lively. At the home offices, at least, the point of view is national, sometimes international, and there is a lot of satisfaction to be gained from that. The men in management are alert and vigorous, and the lawyers seem to find them stimulating.

TRAINING

PROGRAMS

BY AMOS E. REDDING

Secretary of the Aetna Casualty and Surety Companies. Mr. Redding, a graduate of Trinity College, came to Aetna's home office after years of field experience to organize a training school for company agents. He is co-author of the widely-adopted college textbook, Casualty Insurance.

MODERN GENERAL INSURANCE is one of the nation's great businesses. It employs hundreds of thousands of people, both as salaried employees and, in the field of distribution, as commissioned representatives. Its aggregate assets are numbered in the hundreds of billions—and they are growing with each passing year. Few businesses have become so intimately involved in the material affairs of man and his institutions. At the same time, few businesses afford a greater degree of stability and security, in good times and bad.

Inevitably, a business of such proportions, scope and diversity offers exceptional career possibilities to the young man today. Medicine, law, engineering, investments, research, higher mathematics, accounting and auditing, statistics, public relations, sales and advertising—all have an interrelated application in the industry and can provide an outlet for the specialized talents these fields require. In addition, there is a wide demand for men of broad educational background and non-specialized aptitudes.

Yet modern insurance is, in form and function, a complex business, and education is essential if many of the industry's better opportunities are to be fully realized. The term "education," in the meaning intended here, is not "education" as conceived at the college or university level. Rather, it is more closely identified with what is universally, but somewhat ill advisedly, called "training" by business and industrial concerns. But "training" carries far too great an implication of disciplinary direction and dog-trick repetition to be applicable in this instance. Education, with its inherent suggestion of self-improvement for direct material benefit, is the better word. Actually, the principal difference between academic education and business-sponsored education is their relative immediacy in the matter of application. In college, the student is accumulating a vast fund of diverse knowledge for future use, having his mental processes exercised and developed, his character formation influenced. Some of this knowledge may be directly connected with his chosen field; much of it may not. On the other hand, a student attending an educational course sponsored by a large insurance company is acquiring immediately pertinent knowledge today that he may very likely be using tomorrow—with the added urgency of knowing that the proper application of the knowledge will bear favorably on his material well-being. In other words, we speak here not of background education, but of what might aptly be called *foreground* education—the latter as a necessary corollary to the former—and it is the latter type which the young man needs and expects when he casts his lot with a corporation represented in the field of his choice.

No business has been more interested in—or has a bigger stake in—a practical business educational and development program than the insurance industry. Like other businesses, it must depend on youth for self-perpetuation, growth, and vitality. But more than that, due to its many-sided nature and vast size, it can absorb more than just the "cream" of the country's educated young people. It has room, in other words, for the average student, and the average student with a college background can face the future with confidence in the general insurance business if, aside from purely scholastic aptitude, he has certain other qualifications, plus a will to succeed. The industry, however, recognizes that this man also needs encouragement, guidance, and knowledge of a highly practical and specialized nature. For while it is probably true that a few young men, by their own personal and persistent efforts, will qualify for increased responsibilities, it would be unreasonable to assume that the average man in sufficient numbers could enter such a complex business and depending solely on himself become properly prepared in a reasonable period of time.

The foregoing is not intended to imply that the more theoretical type of educational programs is not valuable in preparation for an insurance career. Undergraduate courses in insurance, university extension courses, educational programs offered by insurance societies and associations, and correspondence lessons, all have merit as sound preparatory and, in some cases, "refresher" programs. But there are company-sponsored educational programs—some of them most ambitious—which are much more definite, specific, and designed to emphasize not only the acquisition of necessary information, but also to develop a skill and facility in its application.

By way of illustration, let us consider the program of sales education in casualty insurance conducted at the home office of one of the country's largest multiple-line insurance companies. This program is actually a dual operation:

1. To prepare young men for salaried positions in sales promotion and supervision.
2. To prepare men for careers as local independent insurance agents, whose compensation will be derived from commissions on business they sell.

Although the ends of these two ca-

reers are diverse—the first leading to successively higher administrative responsibilities within the company and the second culminating in a career as an independent businessman—the fundamental educational approaches are nearly parallel. This becomes obvious when it is understood that the two careers are reciprocally dependent, one upon the other, in no small degree. The salaried field representative, working as he does closely and continually with agents, must have the agents' perspective on the business and a profound insight into his everyday problems. On the other hand, the agent must have more than a passing familiarity with company practices, policies, and procedures, along with an intelligent and enlightened understanding of the fieldman's role as a valuable sales factor in his agency.

Following is a composite outline of the curriculum of these courses which, for obvious reasons, are conducted separately (and are of different durations):

I. FUNDAMENTALS OF THE BUSINESS OF INSURANCE
  A. Theory of risk
  B. Underlying mathematical principles
  C. Economic and legal aspects
  D. Relation to other businesses
  E. Types of insurance companies

II. THE INSURANCE AGENT AND BROKER
  A. Functions
  B. Ethical standards
  C. Modern practice
  D. Responsibilities and opportunities

III. SUPERVISION OF INSURANCE
  A. Functions of state insurance departments
  B. Recent developments on the national level
  C. Licensing requirements
  D. Common statutory enactments

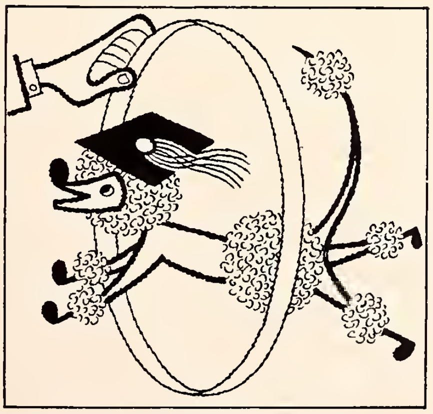
IV. A DETAILED STUDY AND CLOSE EXAMINATION OF:
  (1) policy contracts, their scope and limitations
  (2) rating methods
  (3) underwriting practices
  (4) marketing and selling techniques and plans on each of the following lines:
    a. Accident
    b. Automobile
    c. Burglary and Robbery
    d. Fidelity and Surety Bonds
    e. Fire and Allied Forms
    f. Inland and Ocean Marine
    g. Plate Glass
    h. Public Liability—other than Automobile, including the comprehensive covers
    i. Water Damage and Sprinkler Leakage
    j. Workmen's Compensation and Employers' Liability
    k. Special combination forms used on both personal and commercial risks
  (Policy contracts and the rating and underwriting manuals in current use are employed in this work.)

IV. (a) THE PACKAGE POLICIES
  A. Homeowners A
  B. Homeowners B
  C. Homeowners C
  D. Comprehensive Dwelling
  E. Mercantile Block
  F. Combination Industrial Floaters

V. AGENCY MANAGEMENT
  A. Clientele building plans
  B. Modern business practices
  C. Soliciting methods, individual presentations, prospecting, preapproach, approach and closing techniques; customer development systems

VI. INSURANCE AND RISK ANALYSIS—Survey and Account Selling
  A. Personal risks
  B. Commercial risks

A careful study of the above will bear out a previous statement as to the immediate applicability of this type of program. Theory and fundamentals are not neglected, to be sure, but they are not given major consideration and are kept in their place—at the beginning. All other categories in the curriculum are intensely practical, as evidenced by their titles, and the more so when the method of teaching is explained. In these courses, the lecture is not the sole method utilized in imparting useful information to the student. Rather, emphasis is placed on the "learn by doing" technique. The seminar, the colloquium, the practice sales interview, and the rated sales demonstration (before the entire class) are freely used. It has been clearly proved that these techniques not only tend toward a more permanent grasp of the fundamentals involved, but also aid materially in the development of self-confidence and poise, both of which are desirable attributes in the highly competitive business of modern insurance selling.



Insurance training: more than "dog-trick repetition."

Finally, but by no means least important, the young man attending these courses is made aware of the broader aspect of this business in terms of the contacts he must make and develop, the type of person his fellow citizens will expect him to be, and the stress he himself must place on both the development of his own character and the broadening of his own personality. These are not imparted to him as sermonized platitudes, but as down-to-earth, bread-and-butter facts, upon which success or failure may depend.

The home office courses are but a single phase of the educational program. In the case of the field representative, he is assigned, after the conclusion of his courses, to a branch office where he receives additional on-the-job schooling, under the supervision of the branch manager and the superintendent of agencies.

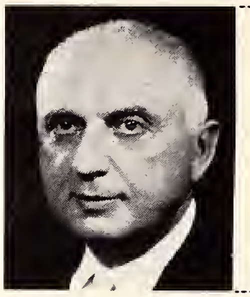
The agent, after completing his course, may follow one of several procedures in any of which his progress is closely watched by company, agency, and educational personnel. He may return to an established insurance agency. He may open his own office. He may operate as an "office agent." In any event, he has at his disposal, during his entire development period and thereafter, the active and enthusiastic support and assistance of skilled and experienced branch office personnel whose business it is to see that he overlooks no opportunities on the road to success.

Though the foregoing example is confined to only one phase of insurance company operation (but perhaps the most important one), it will serve to illustrate the type of educational program which the industry makes available to young men today. This type of practical, directly applicable program is what the college graduate might well look for—over and above the many tempting promises of high beginning compensation, prestige or glamour—in the selection of a prospective employer. Today, the college campus atmosphere is filled with propositions, summoning the young graduate to what appears to be an immediate, ready-made Utopia. However, wisdom still dictates a long range look at the future, and a career in the general insurance field warrants most careful consideration. The opportunities are there—and the industry itself offers an educational program designed to help you take full advantage of them. Remember, what you learn today may very well determine what you will be tomorrow.

PART V NEW FIELDS AND TRENDS

NEW FRONTIERS

BY ROY TUCHBREITER



President of the Continental Casualty and Assurance Companies. Mr. Tuchbreiter's career in insurance includes a period of over 35 years with the Continental Casualty Company. He was formerly with Fidelity and Deposit of Maryland.

RISK is inherent in life. From the time a man is born, he must live with it. The longer he lives, the greater the risk becomes. From the standpoint of insurable risk in its simplest terms, there are only two things we can lose in this world—time and possessions. And there are only two ways in which we can lose either of these—destruction or confiscation. It may be that the risk is one which the individual faces alone, or one that he shares in common with his associates. Still, it is always the individual who creates the need for insurance.

The basic purpose of insurance is to remove this risk. Insurance, in effect, is the sharing of risk with others. Shared by sufficient people, the risk no longer exists in its original form, for the chance of loss and the consequence of loss become measurable, and the cost (premium) is known. Without insurance, our economy could not function as it does today. It is the cornerstone of credit. Without it we could not arrange mortgages on our homes, or buy automobiles or many other things on the pay as you go basis. Except for insurance, many commercial ventures could not endure. In the United States alone, we spend more than 12,000,000,000 dollars yearly to protect this risk, exclusive of all life insurance. Over half of the premium is for the protection of the individual, or his family. Probably three out of every four hours invested in the profession of insurance is devoted to these individual policyholders and their needs. These individual policyholders, of course, joined together with their neighbors, form the business associations that make up the commercial life of our nation (and thus the commercial insurance risks). But it is the risk they face in personal life that is the most real to them.

It is this individual policyholder that offers the insurance world a new frontier—the true challenge of tomorrow. Paradoxically, it is in serving the needs of these individuals that our industry has made the least progress. We cannot say that progress has not been made. From its early European concepts, protection of the individual has come a long way. In that day, man had to face alone, or dependent upon the generosity of his neighbor, the hazards of his life. Following the Great London Fire, in 1666, the concept of fire insurance was born. This idea of fire insurance came to America with the pioneers. In those early days, however, the colonial American could insure his possessions only against the risk of destruction by fire. As an illustration of the very limited concept of risk sharing then used, the property was considered uninsurable if trees were on the same premises (perhaps because it was felt that trees attracted lightning or made the limited fire fighting that generation was capable of more difficult).

In early America, the law relating to the individual's responsibilities to his neighbors for injuries to his person or property due to negligence was not as clearly defined as it is today. The idea of his sharing that risk with others, through insurance, did not exist.

Life insurance, as we know it today, had its earliest beginning about the same time as fire insurance, but as a general truth, the risk of loss of time (through death, disablement or sickness) was a problem of the individual alone.

From those original limited concepts of insurance, we have today progressed to the point of being able to insure our possessions and our time against loss from most of the prominent perils to which they are exposed—windstorm, explosion, burglary, accident or sickness. This progress in review looks impressive, but it has not really kept pace with the change and increase in risk. Change is the most certain thing in life, and while it is the vehicle of progress, it creates new and basic problems to man's existence. The individual's risk has existed since man first walked this earth, but it has constantly increased and magnified. Man has progressed and expanded his civilization. He has accumulated more possessions and he has been forced to increase his dependence on his associates.

As the tremendous technological progress of the world, and especially of our country, has been accomplished, man's standard of living has risen. His home is more luxurious than the pioneer's log cabin. He drives a fine automobile, and owns more expensive and varied personal possessions. His total material wealth is infinitely greater than that of his forebears. Living as he does in a highly developed and mobile society, his risk of loss to himself and his possessions, as well as his chance for injuring his neighbor, is materially increased. As this has come to be, his risk has become greater, both from the viewpoint of what he can lose and the ways by which he can lose it.

The American has come to expect constant improvements in the products he buys. He accepts, as a normal condition, almost revolutionary improvements in the necessities and the luxuries that add up to the American way of living. The pre-war sewing machine, or automobile, or even cigarette just isn't good enough any more. In fact, last year's models don't sell too

well. What is more, they really have improved. It is that kind of improvement in insurance protection which is the new, the challenging frontier for us.

We have briefly looked at the progress in personal insurance. We have seen that, as man's civilization has evolved, it has created new insurance activities. Unfortunately, each new segment of our business, having been born of a specific need, has largely limited its concern to that need. We have thought too much about the kinds of risk, rather than the basic problem of risk itself. We have seen the trees, but not the forest.

The individual has found it impossible to solve his problem of risk in one contract with one insurer; indeed he has found it impossible to share all the risks which in his mind are insurable. To protect his possessions, he has found it necessary to arrange several policies. It has sometimes been necessary to acquire more than one policy to protect even a specific kind of property. For example, he might need a fire policy and a separate burglary policy to protect his personal belongings. He has often needed one policy to protect against damage to his automobile, and a separate policy to protect him against the risk of the damage he might do with that automobile to his fellow man.

As to the risk of loss of time—the time which created the earning power to make all his possessions possible, he has found it necessary to deal with a completely separate industry. There are logical and compelling reasons for this separation, but to the individual it is a part of, indeed the foundation of, the risk of loss of possessions, even of living itself.

These highly specialized compartments in insurance can be rationalized, but they are confusing and inefficient. More than any other single thing, they have been the insurance industry's basic educational and public relations problem—the basic reason why the layman finds it so difficult to understand our business. Part of the problem has developed because insurance itself has evolved slowly over a long period of time. In many ways it is a problem that is peculiar to the United States, created by our unique form of government. The insurance business in our country is regulated by the various states and the individual states have varying laws controlling our business. Our industry in this country operated until recently under laws which specifically prohibited the inclusion in one contract of insurance, protection for risk of loss to possessions and loss of time. Indeed, it was impossible for a single insurance company fully to protect the risk of loss to time and possessions.

Those laws have now been greatly modified by all the states and in this single change there has been created an opportunity for unlimited imagination in research and development. The way is now clear in a broad legal sense for providing complete protection in one policy and through one company. Here are our new frontiers, to be opened up by still further pioneering. It now becomes the responsibility and the challenge of the insurance world to produce protection for the total risk with-

The progress of insurance appears impressive, but, in fact, it has not kept up with the vast changes in our society.

in the limits of what is feasible under a profit system of free enterprise.

In this modern age of atomic warfare, it is probably true that the peril of war is no longer commercially insurable and that such loss must be assumed by society as a whole, possibly under government sponsorship. Perhaps there are other exceptions but, broadly speaking, any other loss which is beyond the insured's control in origin, and which can be measured as to time of occurrence and amount, should be a proper subject for insurance.

Precisely because the insurance business in our country has grown on such a highly departmentalized basis, we must adopt imaginative new concepts. We must begin to look at the total problem of risk rather than the kinds of loss which are examples of that risk.

Statistics are the heart of our business. We have traditionally kept our records segregated into the many kinds of insurance we have written. We have gathered no statistics at all in some of the important areas of loss cause (such as flood damage). Many factors, of course, affect risk and chance of loss. There is the problem of geographical location, of occupation and economic condition, the problem of weather and its changing pattern. With the increasing peaceful application of atomic power, an entirely new area of risk is created. We must combine these accumulated statistics with the new statistical information we will have so that we can see in proper perspective the total risk modern man must face. With proper application of the modern miracles in the field of electronics, we will find statistical problems that heretofore were beyond the range of feasible effort to be relatively simple. Beyond this statistical research, we will find the very real problem of designing a policy that will satisfy the needs and desires of the policyholder, and that will also comply with the regulatory laws of each of our states.

We must consider carefully the mechanics of our business. In many ways we have exactly the same problems of distribution common to other industries. Ours is the distribution of protection, rather than product, but the mechanics of the problem are largely the same. We must be sure that the mechanical structure of our business is efficient for accomplishing this basic function. The revolutionary applications to this problem being made in the fields of electronics and business management will show us new approaches.

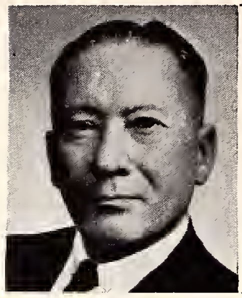
We may well see a revolutionary change in the philosophy and application of our business. Indeed, this change is already with us today and many newly introduced package policies are major accomplishments toward our goal.

Those of us who have spent a lifetime in this business must recognize this change realistically. We must condition what past experience dictates with a fresh approach. Indeed now, as perhaps at no previous time, our greatest need will be thinking that is new—young men who can enter our business, assemble what is valuable in our insurance history, and apply it to the future without the restricted concepts of the past.

Creative thinking on product, merchandizing, and distribution will be offered boundless horizons as we strive better to serve the insurance needs of our fellow citizens. Many are the problems which face us and which will continue to face us, but problems have beset every road to all the conquered frontiers of the past. As we toil up the hill of progress toward each new summit of achievement we can be thankful for the examples set by our commercial forefathers. Thankful, too, that our youth in their legions are better equipped to play their part in industry under our system of free enterprise than at any time before in the history of our country.

FOREIGN EXPANSION

BY JAMES O. NICHOLS



President of the American Foreign Insurance Association. Mr. Nichols has served with AFIA since 1922 in India, Burma, Ceylon, Java, Siam, China, Egypt and South Africa. He attended Mount Hermon School in Massachusetts.

THE INSURANCE profession and its importance to the development of trade and commerce and the protection of property has been long known abroad. Insurance transactions in one form or another go back several centuries. As man developed his trading relations with distant peoples, the business of insurance played an important part in helping to maintain the new connections by safeguarding those early merchant traders against the adventure and perils described in an ocean marine policy as "of the Seas, Men-of-War, Fire, Enemies, Pirates, Rovers, Thieves, Jettisons, Letters of Mart and Counter Mart, Surprisals, Takings at Sea, Arrests, Restraints and Detainments of all Kings, Princes and Peoples of What Nations, Condition or Quality soever, Barratry of the Master and Mariners and all other Perils, Losses and Misfortunes that have or shall come to the Hurt, Detriment or Damage of their goods and merchandise."

Today insurance knows no national boundaries. Owners of property in all countries want their investments protected, and the property insurance companies are prepared to meet their requirements. The business of insurance from its early beginnings to the vast industry of the present time is fundamentally still the same. It is the making of contributions by the many in the form of premiums to meet the losses of the few. These premium contributions or insurance rates are moderate charges and are based upon common experience. Competition is keen, and reputable insurance companies in all lands endeavor to serve by understanding the needs of property owners and broadening coverages whenever intelligent underwriting and experience warrant such extensions and only when it can be done without endangering the financial soundness or responsibility of the companies. The legal liability and financial responsibility surrounding modern industry and commerce are so very great that insurance protection must be carried to safeguard the owner, investor, buyer, and seller from those accidental happenings which are bound to occur causing loss and destruction of life and property and create legal and financial liability which must be met. These serious problems exist in all countries today, and some of America's leading insurance companies have had the vision, the courage, and the desire to extend their business operations to foreign lands. They felt that there were opportunities awaiting them in other countries, and they knew that they had much to contribute in the way of knowledge and experience which would help to solve and to meet the serious insurance problems confronting property owners abroad.

Through the years, at home and abroad, the property insurance business has developed steadily. Property insurance premium in 1955 in the United States, including casualty companies, amounted to $10.4 billion.

Before World War I, the American insurance companies had been operating in the Dominion of Canada, Cuba, Mexico, Alaska and Hawaii, but the foreign field at large was unknown territory. The first World War brought in its wake tremendous interest in foreign trade. It brought about a realization that new fields of endeavor were open to us, that an opportunity was now given to us to participate in world trade. It was urged that American productive enterprise and American finance should seek new outlets and should do what other industrial and trading nations had been doing from time immemorial. It was only natural, therefore, that officials of property insurance companies would form part of this growing group of visionaries. The American insurance companies had been content in the past with their own country which had been sufficient for all their ambitions, but being enterprising concerns they were anxious to expand further, and the conditions brought about by World War I gave them the opportunity of looking further afield.

In 1918, the American Foreign Insurance Association was formed by 20 of America's leading stock fire insurance companies, and the assets of these companies were mutually pledged in support of individual undertakings. At that time, it was stated that no greater fund of security against fire and marine losses existed anywhere in the world. The assets of these companies were $425 million—that was 38 years ago. The assets of the 24 member companies of the association as of 1955 were $4,606 million. This new organization was charged with developing fire and marine business around the world. That was quite an order and the scope was startling. No such cooperative organization had ever been conceived. The total assets of the members were pledged to its success and it was recognized that decades would be required for the permanent and successful establishment of operations all over the globe.

It is estimated that American property insurance companies have an income of about $100 million from their foreign operations. This, we feel, is only the beginning. The members of the AFIA are now operating in 63 countries with 82 branches in those countries. American insurance com-

panies regard insurance as necessary to the health of every type of business and will be needed wherever American enterprise is conducted. The members' record for integrity and prompt payment of insurance claims, their extensive organizations, and their experience in handling insurance problems the world over clearly demonstrate ability to meet the requirements not only of the owners of property but the needs of agents and brokers who desire to serve their clients efficiently and satisfactorily.

Leading economists and world finance experts unanimously believe that international trade must be maintained at a high level in order to preserve a lasting peace. When the nations of the world have awakened to the realization that global harmony cannot endure unless economic and political interdependence is a reality, American business will need new markets—goods will be exchanged with nations which were previously unable to trade with us. American business can look forward with well founded confidence to brighter horizons.

America is a very large investor overseas. The latest figures show that US private investments abroad amount to $26.6 billion. American insurance is interested in protecting the investments of American commercial and industrial organizations abroad. That is why AFIA maintains branch offices and agencies around the world. American companies can issue policies in US dollars or in any other currency designated by the insurer with limitations. The companies require that the premium be paid in the currency in which the policy is issued. The companies have worldwide banking connections and can promptly pay losses in almost every country in the world. Distance is no longer an obstacle to speedy communication. Cable and overseas telephone communication is rapid today and, whenever the need arises, we can easily contact any part of the world in a reasonably short time.

The American government has been showing a great deal of interest of late in the development of American insurance abroad. Our government through the Department of State and the Department of Commerce has indicated a desire to assist in the development of the industry abroad. Following an all-industry meeting with highly placed government officials, an industry program was developed and we expect that a great deal of support will be forthcoming from the government on many of the specific cases that the program will embrace.

A recent study of the annual premium income abroad enjoyed by all property insurance companies with the exception of those operating in the Iron Curtain countries developed an estimate of about $4.5 billion. The American insurance companies operating in the foreign field hope to develop for their account a modest share of this total figure. I don't think our friends in other countries can, with any justification, say that the American insurance companies are asking too much in return for what they have to offer and are giving. To those who wish to share in the American market, we would state that there is more premium written in this country than in all the other areas of the world put together, and our foreign friends are welcome to a participation in the American insurance business if they are prepared to meet the same requirements which the American companies have to meet. They will find no discriminatory laws or taxes here; they will find no compulsory government insurance bureaus; they will find no exchange laws which will prevent them from moving their profits or their surplus funds to other areas where there is need for them; there will be no obstacles to their developing freely in this great area of free enterprise. The foreign companies and their American subsidiaries are now writing about $1 billion of fire, marine and casualty insurance premiums in this country.

Wherever the members of AFIA have gone, we have endeavored to work in close relationship with the leading national insurance companies. We have tried to bring the knowledge and experience which the American insurance companies have gathered in America to bear on local problems, and we feel that we have contributed much to developing the business and to keeping it on an even keel in those countries where national insurance companies have come into existence in large numbers only in the past 20 or 30 years.

During three decades I have observed and shared in the development of business by American property insurance companies abroad. I have known many officials of overseas branches. I think I can safely state that, if the men I have known had to make a fresh start, their thoughts would turn again to the far horizon. They have known the deep contentment which comes to men engaged in creative and productive work.

The foreign field holds great promise and reward for any person possessing initiative, common sense and

the ability to get along with other peoples. A man's value to his firm is mirrored in trading results. Every representative sent abroad goes out as an official of his firm. From the day of arrival at his post, responsibility is thrust upon him.

When I first went abroad, some of the markets were tightly held by the traders of a few countries. The first World War had broken the stranglehold which the Germans had held in some trades. The passage of time brought keen competition in the form of colorful and extensive advertising, improved merchandise, attractive packaging, more efficient methods of marketing and a natural increase in world consuming power. These factors created sales pressure which forced open the world markets to the exporters of all countries and to American insurance companies.

Merchants in those countries are keen traders. It is a pleasure to do business with them. The English language is in common use in many trading circles, but the wise man after his arrival will study the language of the country. To be able to speak it will admit you to quarters which you would otherwise not reach. The people of the country will respect you for the effort which you have made to bridge the gap between them and yourself. You will also obtain untold pleasure from the daily occurrences around you and which will be discernible to you and not to the person who is unable to comprehend the joy, the laughter, the sorrow, and the constant excitement which is seen and felt in these teeming metropolises.

Every reputable firm starts a foreign representative at a salary which will permit him to live comfortably and to share in the communal and social amenities available. The social life in most foreign cities is delightful. It holds great charm and appeal for the average person. Nearly every form of sport can be indulged in, and cultural interests are abundant in these ancient lands. Home leave is something to look forward to. When arranging business trips and during periods of home leave, a little thoughtful planning of the travel routes will make each voyage a new and exciting adventure. The friendships you will gain, the interesting and sometimes strange and wondrous sights you will witness, and the encounters and experiences which you will have will become rich and lasting additions to your storehouse of memories.

Introductions to the right people will help you to get started much more easily than if you enter a community as a stranger. It can also be very valuable from a business standpoint. Introductions are easy to obtain. Few persons ever stop to think about the full relationship between themselves and the community at large. The strands of human society are infinite. Among the membership of your church, lodge, club, college and service organizations, you will find a dozen friendly leads to the persons who are probably living in or near the city or town which will become your post.

To young men who have completed their education, who are eager for responsibility and action, and who feel that they have the quality of leadership, I would say—Look to the far horizon, for there you will find a great challenge! The insurance business is a great business; it will share in the growth and development of all countries and will offer rich reward to those who give themselves to it and contribute to the development of growth of American enterprise and American insurance abroad. You will come to know your fellowmen around the world and you will learn much from them.

* * *

MULTIPLE

PERIL PACKAGES

BY ROBY HARRINGTON

Partner and Director of Johnson & Higgins. Mr. Harrington has been in the insurance business since 1927. He first entered the brokerage business with John W. Thomas Inc., where he was made vice president and a director. Joining Johnson and Higgins in 1943, he became vice president in 1953 and a director in 1956.

Hundreds of articles and thousands of words have been written about multiple-peril policy developments. This is particularly true of the output policy and other package floaters and of independent plans no matter how they are identified. My purpose is not to enlarge upon the many words already written on the subject but to emphasize the importance of this new trend. It is and will become more important to the corporate insurance firm and its development will present very interesting opportunities for the young man who wishes to make insurance his career.

Prior to the passage of the multiple-line law, the operations of most insurance companies were limited by their charters to selected fields of underwriting. The natural result was a narrowed self-interest which caused each company to push its particular specialization with the buying public. The rapid expansion of industry during and after World War II brought about a demand for broader underwriting facilities and encouraged many of the insurance companies to expand into practically all fields of underwriting. This has been a slow and sometimes painful process but it is developing at a very rapid pace today. Some of the more conservative companies of the past, realizing that they are now at a competitive disadvantage, are currently spreading their wings and offering broadened underwriting facilities in self-defense.

The rapid growth of industry in the past twenty years has stimulated a vigorous demand for more up-to-date insurance contracts. Industry has sought and is now getting simpler contracts with broader coverage and with fewer gaps between the separate policies they formerly carried in an effort to obtain full protection. During the 1920's, a corporate insurance buyer could, under the authority granted by many states, obtain an inland marine policy granting similar protection to that afforded by the multiple-line contracts now available. In the states where this authority was not granted, such contracts were illegal. During the 20's, the companies issuing the so-called "all risk" contract on real and personal property were relatively few; this encouraged Lloyd's, unhampered by state controls, to enter the field and write a substantial amount of business. This development, together with the domestic inland marine underwriters who vigorously pioneered for this cover, have accelerated today's thinking.

The Supreme Court's 1944 decision against the Southeastern Underwriters Association, which declared insurance to be inter-state commerce, brought about the passage of multiple-line laws in many states, thus clearing the legal way for full underwriting powers to insurance companies for the insuring of corporate properties. In spite of the continually rising loss experience on physical damage exposures, the healthy post-war growth of our domestic insurance companies has been most encouraging and their new-found strength has led the industry to the point of some spectacular changes. The next five or ten years will bring about major internal changes to the average company and its organization pattern so that new and lucrative job opportunities will be open to young men in the multiple-peril field. Because this is one of the newest developments in our industry, opportunities for young men of imagination will be many, and the financial reward for those who take part in this development should be great. Even though the number of companies actively engaged in multiple-line operations is limited, a forward-looking insurance executive knows that the public interest in the advantages of this program will lead to a greatly accelerated development in the field.

The multiple-line approach is of great interest to the buying public because it attempts to give to commerce and industry the same protection the homeowner's multiple-peril policy has given to the individual householder. This dream - coverage eventually will permit the combination, under one blanket contract, of all physical damage exposures to corporate property.

What does this mean? The original concept of fire underwriting required identification of specific locations, the enumeration of values at these locations, and painfully selected individual perils for rating consideration. The package contract eliminates the dangerous guess-work by an insurance-buyer, eliminates piecemeal covers and includes automatically under practically all risk conditions all real and personal property values. This is true whatever the values may be, wherever they are located. In other words, the buyer obtains full automatic coverage whether or not he is aware that an exposure exists. Only specific exclusions can alter the situation.

Another important point is that the buyer gets blanket insurance and is no longer penalized for errors in declarations. Since all exposures are intended to be covered, errors simply require a corrected report without penalty to the insured. These contracts provide all-risk coverage to property with few of the old traditional exclusions. The exclusion most often used is the unusual exposure of flood, in

which case a definite flood limit is inserted in the contract. You can see from the above that the buyer can collect practically all direct physical loss regardless of the cause of the loss.

The plan not only eliminates the need to select and supervise the many types of insurance coverages but permits a tailor-made contract, drawn for a particular insured to cover his needs, thus eliminating the inherent danger of the separate-policy approach.

It is obvious that this contract crosses all the normal divisions of the insurance business as previously known and packages many of the traditional fire, casualty and marine exposures of the insured. The need for realignment and merging of the separate functional departments of the insurance industry thus becomes apparent. This has led many of the top insurance executives to broaden their thinking and to develop men capable of dealing with the new contract. The same is also true of the producer. The forward-looking broker or agent is affected in the same way: he must develop men capable of handling the all-risk contract within his own organization and men who are capable of explaining the different advantages to the buyer. The change will bring about the revision of reinsurance treaties, thereby opening up the reinsurance field along with the company and brokerage fields to young men.

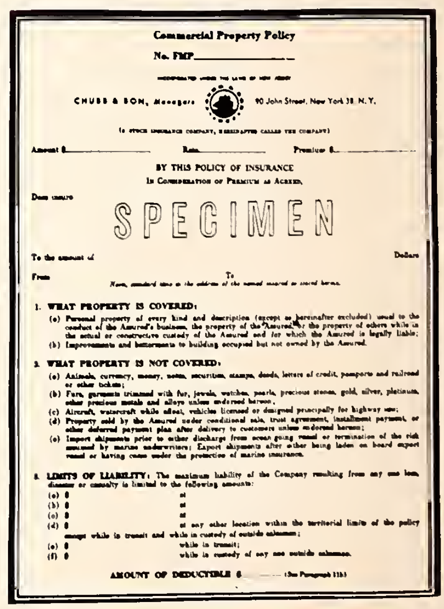
In addition to the advantages cited above, the further advantage of economy must not be overlooked. The concentration and the elimination of the burdensome handling and administration expenses accomplish a realistic reduction in overhead to the buyer, giving him the ability to pool a large segment of his insurance premium and to create his own purchasing power for the gaining of maximum consideration from the underwriters.

If this trend continues, the modern American business executive can look forward to a single policy, with a single rate, covering his real and personal property throughout the United States and its possessions and without restrictions created by state boundaries. Without stretching our imagination too far, we believe the next logical step in the future will be the development of an all-risk comprehensive cover on real as well as on personal property. This means the inclusion of buildings, machinery, the time-element coverages (such as business interruption, rents) and other exposures whose rates are predicated on the physical hazards inherent in each risk. Looking further into the future, boiler explosion and machinery breakdown coverage may be encompassed as well as loss of profits occasioned by such accidents. It does not seem incomprehensible that coverage against employee dishonesty and the loss of money and securities, from any cause whatsoever, will also be included. If this comes to pass, we can look forward hopefully to the inclusion of most of the risks normally insured by a buyer being carried in one blanket contract and with one blanket rate.

We should not overlook some of the knotty problems which must still be reconciled. One of these is the merging of the separate philosophies of underwriting which the fire and the marine underwriters have each held in the past. The fire market has underwritten its risks by individual class whereas the marine market has given rating credibility to the individual risk. Another major problem, but no less important, is the re-education of personnel to deal with the problems of the future.

A young man who decides upon an insurance career and enters the field today will be unfettered by the old concepts and the old inflexibilities of our industry. If he will enter the field eager to learn, he can become a part of the most dynamic new development in the industry. He must understand that this business requires a certain amount of personal investment, from the time standpoint, before he begins to reap a real reward; but patience, personality and perseverance should inevitably assure him of a promising future.

A MULTIPLE LINE POLICY



Commercial Property Policy

No. FMP________

CHUBB & SON, Managers — 90 John Street, New York 38, N.Y.

Amount $______ Rate______ Premium $______

BY THIS POLICY OF INSURANCE
In Consideration of Premium as Agreed,

Does insure

SPECIMEN

To the amount of ______ Dollars

From ______ To ______

1. WHAT PROPERTY IS COVERED:
(a) Personal property of every kind and description (except as hereinafter excluded) usual to the conduct of the Assured's business, the property of the Assured, or the property of others while in the actual or constructive custody of the Assured and for which the Assured is legally liable;
(b) Improvements and betterments to building occupied but not owned by the Assured.

2. WHAT PROPERTY IS NOT COVERED:
(a) Animals, currency, money, notes, securities, stamps, deeds, letters of credit, passports and railroad or other tickets;
(b) Furs, garments trimmed with fur, jewels, watches, pearls, precious stones, gold, silver, platinum, other precious metals and alloys unless endorsed hereon;
(c) Aircraft, watercraft while afloat, vehicles licensed or designed principally for highway use;
(d) Property sold by the Assured under conditional sale, trust agreement, installment payment, or other deferred payment plan after delivery to customers unless endorsed hereon;
(e) Import shipments prior to other discharge from ocean going vessel or termination of the risk assumed by marine underwriters; Export shipments after either being laden on board export vessel or having come under the protection of marine insurance.

3. LIMITS OF LIABILITY: The maximum liability of the Company resulting from any one loss, disaster or casualty is limited to the following amounts:
(a) $ at
(b) $ at
(c) $ at
(d) $ at any other location within the territorial limits of the policy except while in transit and while in custody of outside salesmen;
(e) $ while in transit;
(f) $ while in custody of any one outside salesman.

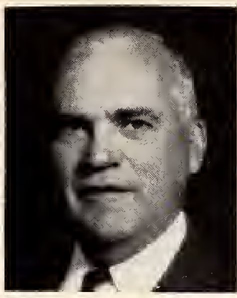
AMOUNT OF DEDUCTIBLE $ ______

This single multiple line policy greatly simplifies property insurance for the insured. It covers all risks except for those specifically enumerated in the policy. Not only does it simplify the insurance process, but it also can give more complete coverage.

INSURING

NUCLEAR REACTORS

BY A. B. JACKSON



President of the St. Paul Fire & Marine Insurance Company. Mr Jackson joined the St. Paul Company immediately upon his graduation from Princeton. He is a member of the committee of insurance executives working with the AEC on the insurance problem.

So OFTEN people say, "I never knew insurance had anything to do with the development of atomic energy." Yet there has never been a new industry where insurance has played such an important part. Usually new discoveries or inventions have grown through gradual enlargement under private auspices, with the insurance business finding it rather easy to go along step by step. This was true with the automobile and the airplane. The nuclear development has been something very different. Here the research and growth was entirely a governmental monopoly with the question of insurance not seriously involved until the passage of the Atomic Energy Act of 1954.

This Act was the one which opened atomic energy to private development, but among other things it provided that private operators of reactors must hold the government harmless from any claims. The Atomic Energy Commission realized that they had a real problem on their hands, and so about two years ago a committee of ten insurance leaders was created to study the problem and to endeavor to work out a solution which would encourage private industry to venture into this new field.

This committee soon found that they were moving into something far greater and more pretentious than the insurance business had ever faced before. Basically there was no great problem caused by the physical or property insurance of the contemplated nuclear power plants. While the values are somewhat greater than plants using the more common sources of power such as water, coal, gas or oil, still these values are easily within the reach of our insurance capacity. The number of workmen to be employed in any nuclear reactor is not great, and even contemplating the worst possible disaster, the insurance business found nothing too alarming in the workmen's compensation liability at a reactor.

Where, then, did the problem which has appeared so disturbing really lie? It is all involved in the question of damage to the property and life of others (outside of the nuclear power plant itself) if some terrible accident or, as the Atomic Energy Commission likes to call it, incident, should occur. To grasp this problem the committee had to try to understand what really takes place in a nuclear chain reaction, and what problems are created by such a reaction, and especially in a runaway reaction. Visits were arranged for the committee to the various experiments at Oak Ridge, Argonne National Laboratory and other places where the commission was endeavoring to develop the peaceful uses of this fabulous new source of power. A few basic facts soon became apparent.

First of all, the main danger was from radiation rather than from some terrific explosive force. Radiation danger is definitely present in every nuclear reactor. When nuclear fission takes place, fission products are created either in the form of minute particles, in gaseous form, or possibly contained in any liquid which might have been used as a coolant. If these products can be kept contained within specified limits, they can be properly dealt with even though they may be dangerous.

Secondly, the radiation itself on a scale suggested in large power developments was a problem the likes of which the insurance industry had never faced before. It is very difficult to prescribe safeguards against a danger which you cannot see, hear, taste, feel or smell. While X-ray had done some educating in this field, still this knowledge was extremely meager for application against such large scale operations. Many studies were presented to the committee showing the extent of damage to expect under the very worst conditions. But, remember that there has been no actual experience on a large scale power reactor because one has never been built and the extent of possible damage could only be guessed at. If all the power reactors which will be built in the next ten years had been operating for such a period, the experience statistically would still be very limited. Furthermore, it is impossible to prove the effects of radiation on individuals based on isolated cases.

Certain facts in connection with reactors seemed very important from the insurance angle. First, the shielding and containment of a reactor was of great importance. Secondly, atmospheric conditions at the time of an "incident" could make a great difference in the result. Thirdly, would private enterprise facing a competitive market be willing or able to spend the money necessary to check each part so minutely, to put in all elaborate safeguards, and to maintain an expensive operating procedure with safety always considered in every move?

The insurance industry was highly appreciative of the fact that Congress and the AEC both wanted nuclear development to rest in private hands, including the insurance problem. Certainly a tremendous challenge was presented to the insurance business, and it had to be met. As a result, the stock interests organized two pools or joint underwriting bodies—one for property damage or the insuring of the reactors

and their supporting plants themselves, and another to cover the liability applying to all others outside the plants. The response has been most gratifying and the stock insurance business is rightfully proud of its accomplishment. Each of the pools has been able to develop a total capacity of around $50,000,000, a sum in the liability field many times larger than had ever been required before. The mutual companies' approach was somewhat different, in that only one pool was organized to cover both liability and property damage, with an amount anticipated around $15,000,000. The total capacity of both the stock and mutual organizations would be available to reactor operators.

However, the creating of these large markets within the insurance industry did not entirely satisfy those contemplating entering the atomic industry. Our leading concerns were not willing to risk all their assets against possible damage that might run into fantastic figures over and above the unprecedented amount of insurance available. American atomic industry appreciated the effort that the insurance business had made, but they realized that in fairness to all other policyholders the insurance companies had to limit their assumptions to amounts which might be severe enough to hurt in the event of a catastrophe, but which would not be fatal to the insurance companies' very existence.

The result of all this has been that both the Atomic Energy Commission and the Joint Atomic Energy Committee of Congress have recommended that the government furnish some form of indemnity up to about $500,000,000 in the event of a major catastrophe. Both recognize that a terrific disaster would be a national emergency beyond the field of any insurance statistics and the indemnity not be regarded in the light of insurance but more like disaster relief. Of course the likelihood of any such occurrence is, fortunately, very remote.

With this as a pattern, the insurance industry is moving ahead in the insuring of atomic reactors. Applications are beginning to be made to the various pools. As said before, the risks will be so few in number that each will have to be studied on an individual basis, and the rates undoubtedly will vary considerably, depending on location, construction, maintainance, size of operation, and many other features. Extensive inspections will be made during construction and after the reactors are in operation, and close cooperation with the Atomic Energy Commission in this regard will prevail. Nobody wants a serious "incident" and perhaps one of the greatest contributions the insurance industry can make in the development of the atomic power age will be in the safety work which it will do. Thus the insurance business, as always, is moving along with the growth of a new industry, and the atomic energy industry is no exception.

Argonne National Laboratory

Water and steam being ejected from a nuclear reactor in Idaho, the result of a severe "runaway" of the reactor. In this case no extreme temperature resulted, nor was there radioactivity in the products emitted.

WHAT ARE THE OPPORTUNITIES WITH THE AETNA INSURANCE GROUP?

An Interview with Clinton L. Allen, President

*** The Aetna Insurance Group is one of the most progressive fire and casualty insurance organizations, having been a pioneer in the creation of multiple-peril "package" policies.**

*** Forms of insurance written include fire, automobile, "all risks" floaters, marine, burglary, workmen's compensation, liability, accident and health, fidelity and surety bonds, and many others.**

*** It was one of the first companies to appoint agents outside its home state and is now represented by approximately 17,000 producers, supervised by a large field organization. Through its affiliation with the American Foreign Insurance Association, it sells and services insurance all over the world.**

*** Since its founding in 1819, Aetna companies have paid a total of over $1,000,000,000 in settlement of claims. No policyholder has ever suffered loss because of failure of the Aetna to meet its obligations.**

Q: For what types of positions are there opportunities with the Aetna for college-trained men?

A: The opportunities in the insurance business are many and varied. They include claim adjusting, accounting, underwriting, engineering, law, investment, sales promotion and advertising, and teaching, to mention a few, but of particular interest to young college men are the openings in the field organization.

Q: What are the duties and responsibilities of a fieldman?

A: He is the key contact man between the company and local agents and brokers through whom all Aetna policies are sold. He periodically visits the agents in his territory and explains new developments, such as policy changes, rate revisions and rule changes—suggests to local agents how they can improve the effectiveness of their selling efforts—helps them solve the insurance problems of certain clients—and at times inspects risks for the purpose of eliminating hazardous conditions. He is also responsible for appointing new agents.

Q: What is the title of a fieldman and how is he compensated?

A: He is given the title of Special Agent at the beginning of his assignment, and is compensated entirely by salary. The work involves travel and an automobile is provided by the company for business purposes.

Q: What are the opportunities for advancement for a fieldman?

A: The normal line of advancement is to State Agent or Field Manager, who directs a group of Special Agents and has greater responsibility and authority. The Aetna follows the policy of promoting within its own ranks.

Q: What are the qualifications for a successful fieldman?

A: Experience shows that four are particularly important: *Initiative*—because a fieldman is on his own to a considerable degree. *Personality*—which means he should genuinely like people and know how to meet them easily; also, he should possess such qualities as dependability, cooperativeness and integrity, for these make him a man who "wears well." *Well-informed*—because local agents look to him for information on a wide range of insurance problems. *Industrious*—because personality and information mean little if they are not fully utilized.

Q: What are the duties of an underwriter?

A: Duties of an underwriter include examining all business submitted by the sales force, passing on its acceptability, arranging for inspections, negotiating re-insurance, establishing a rate when necessary and seeing that the policy is properly serviced until expiration. He plays a key role in the company's operation and must possess good judgment and business acumen.

Q: Does the Aetna have a training program?

A: Yes. It maintains an Educational Department staffed by men who have had practical experience in insurance and are also qualified to train others. The educational program is a combination of class and on-the-job training for a period of one to two years, after which a man is usually assigned to the main office in Hartford; a departmental office in New York, Chicago, San Francisco, Charlotte or Toronto; or a State service office. One or more service offices are maintained in all 48 states.

Q: What security benefits does the Aetna offer employees?

A: The Aetna program includes Group Life Insurance, Group Hospitalization, and Retirement Income. The major part of the cost is borne by the company.

Q: To whom should an application for further information be addressed?

A: E. Wallace Champion, Personnel Director, Aetna Insurance Group, 670 Main Street, Hartford 15, Conn.

You'll be Trained

If you are one of those chosen for an insurance career at Royal-Liverpool Insurance Group, you will be given six to eighteen months training with pay before you are assigned to your first position of responsibility. You will receive thorough and systematic classroom instruction, and you will work for short periods in many departments in the Group and in one of our regional offices. The length and character of your training will depend upon the type of career you choose.

Following this training your pay will be increased and you will begin your working career. Where you work depends partly upon the needs of the Group at the time and upon the type of insurance career you choose. (Most opportunities for special agents, under-
...nen, for example, exist in our 27 regional and
...ccountants and actuaries, in our principal office
... An important consideration in determining
...nd work is your own personal choice.

...ice depends solely upon your abilities. Age is
... positions of senior responsibility. And admin-
... continually opening since our Group of 11
...lertaking a planned program of growth and
...portant, we are also in the process of further
...ns which also is creating new executive and
...s in our regional and field offices.

...ne career opportunity appeals to you, write
... with one of our officials. In your letter de-
...l background, college activities, any work
...nformation you think pertinent. Mail your
... Personnel Manager, at our principal office
...'ll arrange an interview at a place con-

...POOL

...RETY

...Y.

PACIFIC DEPT.
San Francisco, Calif.
Oakland, Calif.
Sacramento, Calif.
Los Angeles, Calif.
Portland, Oregon
Seattle, Wash.
Great Falls, Mont.
Denver, Colo.

...STERN TERRITORY
...ton, Mass.
...acuse, N. Y.
...t Orange, N. J.
...ladelphia, Pa.
...shington, D. C.

SOUTHERN TERRITORY
Richmond, Va.
Atlanta, Ga.
Nashville, Tenn.
New Orleans, La.
Dallas, Tex.

METROPOLITAN & SUBURBAN
Flushing, N. Y.
New York, N. Y.